FINANCIAL TIMES

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Emotion after Manila truce, Page 4

World news

Bonn tells Syrian envoys to leave

West Germany reacted to evidence that Syria helped plan a terrorist bombing in Berlin by ordering out five Syrian diplomats and refusing to send a new ambassador to Damascus. It said aid to Syria would be blocked.

In Berlin, the Western military allies – the US, Britain and France – decided to exclude "certain Syrian citizens" from entering the city from East Berlin.

Bonn added that it would no longer recognise one-journey passports from Syria, stating that these may have been issued to terrorists. It made clear its actions were directed more against official Syrian agencies than the Damascus Government. Page 3

Ulster mortar attack

More than 20 people were injured when mortar bombs fired by the Irish Republican Army missed a police station in Newry, Northern Ireland, and crashed into nearby buildings.

Iran-Italian row

Iran is expelling three Italian diplomats and recalling its ambassador from Rome in protest at a satirical programme on Italian state television last weekend which it found insulting. It has ordered the Italian Cultural Centre in Tehran to close.

Manila pact signed

Amid handshakes, hugs and smiles, Philippines Government and rebel negotiators signed a ceasefire agreement in Manila that could be the first step towards ending the 17-year communist war in the countryside. Page 4

Israel hits bases

Israeli aircraft attacked targets in Southern Lebanon for the fourth time in 11 days, bombing positions belonging to the mainstream Fatah branch of the PLO. Page 4

Pretoria frees three

Three of the 22 defendants in a major South African treason trial were freed on grounds of insufficient evidence. Six others were allowed bail. Page 4

Pravda blames Kohl

Soviet newspaper Pravda accused West German Chancellor Helmut Kohl of harbouring "primitive hostility" towards the Soviet Union and East Germany. It said he had poisoned relations between Moscow and Bonn.

$2.5m theft charge

A London court ordered Robert Sensi, 35, an American accused of stealing between $2.5m and $5m from his employer, Kuwait Airways, to be extradited to the US.

Gorbachev's plea

Soviet leader Mikhail Gorbachev, speaking to the Indian Parliament, called on the US and Asian countries to reduce the risk of war in Asia by agreeing to prior notification of military manoeuvres and guaranteeing the safety of sea lanes. Page 4

US carriers claim

Aircraft carriers are among ships of the US Navy positioned off Nicaraguan ports, Sandinista leader Bayardo Arce said in Buenos Aires. Page 5

Paris student march

Fighting broke out between rival groups during a march by students and schoolchildren which blocked the Latin Quarter in Paris. They were protesting at plans to reform university entrance. Page 3

Murder in court

A man about to go on trial for murder killed his wife with a pistol shot and seriously wounded his father before shooting himself dead in court at Lampang, Thailand.

Swiss trees suffer

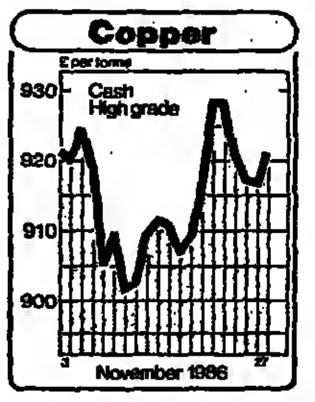
Half of Switzerland's trees have been damaged by air pollution, up from 36 per cent a year ago.

Business summary

Australia unveils TV rules change

AUSTRALIAN Labour Government unveiled sweeping changes in policy on the ownership of television stations which will affect some of the country's biggest business empires. The changes are billed as the most radical in Australian broadcasting since the introduction of television in 1956. Page 22

ANGLO American, South Africa's largest mining and industrial group, increased interim pre-tax profits by 27 per cent to R878m ($157.8m) from R304m in the same period in 1985 principally because of higher foreign earnings. Page 23



COPPER'S cash price on the London Metal Exchange closed £4.25 higher at £921 a tonne after a decision by Canadian metals group Noranda to cancel January shipments of cathodes. A strike has cut output sharply at its Quebec smelter. Page 40

LONDON: The closure of US markets took the heart out of London yesterday and the FT-SE 100 closed 9.5 down at 1,632.5. The FT Ordinary index slipped 0.3 to 1,288.0. Page 46

TOKYO: Buoyed by hopes of a year-end rally prices staged a broad advance. The Nikkei average gained 155.75 to 17,883.66. Page 48

WALL STREET: Markets were closed for the Thanksgiving Day holiday.

GOLD rose $1.25 on the London bullion market to close at $383.50. It fell in Zurich to $383.60 from $383.75. Page 40

DOLLAR fell in London to DM 1.9890 (DM 1.9895); it also fell to Y162.70 (Y162.95); FFr 6.5175 (FFr 6.5200); but rose to SFr 1.66 (SFr 1.6585). On Bank of England figures the dollar's exchange rate index was unchanged at 110.5. Page 41

STERLING closed in London at $1.4290 ($1.4320); it fell to DM 2.8425 (DM 2.8500); SFr 2.3725 (SFr 2.3750); FFr 9.3125 (FFr 9.3375); Y232.50 (Y233.25). The pound's exchange rate index fell 0.1 to 68.1. Page 41

JARDINE, Hong Kong trading group, is demerging Mandarin Oriental Hotel group from Hongkong Land by a public flotation and transferring Hongkong Land's other non-property assets to that company's shareholders. Page 25

BASF, West German chemicals group, reported a 12.7 per cent in group pre-tax profits to DM 2.15bn ($1bn) in the first nine months of the year. Page 23

DEGUSSA, West German precious metals and chemicals group, said full-year profits for last year had been broadly maintained at around the DM 112m ($56m) level achieved in 1984-85. Page 23

HILTON HOTELS, California hotel chain, is considering bidding for Hilton International, a Transworld subsidiary operating 90 hotels worldwide, which it originally spun off in 1964.

TORONTO-DOMINION Bank, one of North America's strongest financial institutions, has suffered its first earnings decline in more than a decade, with net income dropping to C$402.6m ($290m) in the year to October 31 from C$415.6m the previous year. Muscle pays off for Canada's Big Six, Page 23

Nato allies attack US for exceeding Salt 2 arms limits

BY ROBERT MAUTHNER IN LONDON AND LIONEL BARBER IN WASHINGTON

THE US decision to exceed the weapons limits of the Salt 2 treaty by putting into operation the 131st B52 bomber armed with nuclear-armed cruise missiles, was criticised yesterday by both the Soviet Union and some of Washington's Nato allies.

Mr Boris Pyadyshev, a Soviet Foreign ministry spokesman, warned that the US move, which breaches the ceiling on nuclear arms imposed under the 1979 Strategic Arms Limitation Treaty, would inevitably exert a negative influence on the Geneva nuclear arms control talks.

Most immediately, the American action is likely to sour the atmosphere at the special session of the Geneva talks between the US and the Soviet Union, due to be held next week.

The meeting is expected to provide a pointer to whether further progress is possible in the immediate future towards dismantling the superpowers' nuclear arsenals, following their failure to reach a comprehensive agreement on nuclear weapons cuts at the Reykjavik summit last month.

President Reagan expressed his intention to break out of the Salt 2 limits as long ago as last May, but the European members of Nato have continued their efforts to dissuade him from a step which, they feel, can only harm the arms control negotiations.

The UK Foreign Office chose its words carefully, but nevertheless indicated its disapproval of the US decision. "Her Majesty's Government has repeatedly made clear its view that the Salt agreements should continue to be observed by both sides," it said. However, the Foreign Office softened its criticism by recognising "US concerns about Soviet non-compliance," adding that Britain had on many occasions asked the Soviet Union to respond to these concerns.

The British statement also said that the UK's priorities remained the conclusion of a significant new agreement on strategic arms, based on adequate verification procedures as identified by Mrs Thatcher, the Prime Minister, and US President Reagan at their recent meeting in Camp David. "This would transcend the debate about past agreements in this area," it added.

Mr Hans van den Broek, the Dutch Foreign Minister, also regretted Washington's decision. It was "politically unfortunate" that it had been taken so soon after the Reykjavik summit, he told the parliamentary foreign affairs committee in the Hague.

The Salt 2 Treaty was signed by former US President Jimmy Carter and Mr Leonid Brezhnev, the late Soviet leader, in 1979. Although it was never ratified by the US Senate, Washington has adhered to its provisions, which limit the US and the Soviet Union to 1,320 strategic nuclear delivery systems each including land and sea-based missiles with multiple warheads, and cruise missile-carrying bombers.

The Pentagon said yesterday that continuing violation by the Soviet Union of the treaty had prompted the final break. The US has charged that Moscow has deployed an entirely new missile, the SS 25, while Moscow claims that it has simply modernised its old SS-13 launchers, as permitted by the Salt 1 treaty.

Economy may undermine Brazil's stance on debt

BY IVO DAWNAY IN RIO DE JANEIRO

A SHARP DECLINE in Brazil's trade performance and widespread reports of a sharp decline in foreign exchange reserves have seriously undermined the Government's position in talks due to begin next month on the country's $107bn foreign debt.

Pressure is mounting from the Government's two coalition parties – the Brazilian Democratic Movement (PMDB) and the Liberal Front (PFL) – for a tough negotiating stance when discussions open with the Paris Club group of sovereign creditors in December.

But others fear that the downturn in Brazil's trade figures could force the country to seek new loans from the commercial banks to bridge an expected financing gap, thereby substantially reducing its bargaining power.

October's trade surplus dropped to $210m for the month against $1.1bn last year, and new predictions have reduced the forecast 12-month total surplus to $9.8bn – down from $12.5bn last year and only $525m above current levels.

Unconfirmed reports from Brasilia, published yesterday, claim that reserves have fallen by over $1bn so far this month.

Public confidence in the health of the economy has taken a major knock this week as Brazilians have absorbed the impact of an austere fiscal package that raised some prices by 100 per cent, lifted tariffs for government utilities and shut 15 state enterprises and agencies.

Critics of the adjustments to February's anti-inflationary cruzado plan claim that it is inadequate to tackle the soaring demand that has overheated the economy, raised imports and cut export sales.

A sharp rise in interest rates to an annualised 125 per cent for 30-day certificates of bank deposits, provoked a 16.3 per cent fall in share values on Sao Paulo's Bovespa index in three days, before the market stabilised yesterday.

On Wednesday, Mr Dilson Funaro, the Finance Minister, offered his resignation to President Jose Sarney in response to widespread hostility to the measures, but it was rejected.

According to a model devised by the Getulio Vargas Foundation (FGV), the widely respected Rio de Janeiro 'think tank', Brazil's 1987 trading performance, based on October's result, could leave the country with a year-end surplus of just $1.8bn in 1987.

Dr Paulo Nogueira Batista, who devised the model, said that measures need to be taken immediately to revive the country's trading position. But he added that any attempt to achieve results similar to recent years would require an unacceptably drastic squeeze on demand and devaluation of the cruzado.

"It would be technically conceivable but politically unviable", he said.

The stark turnabout in Brazil's economic outlook looks certain to shift its approach to the forthcoming debt talks. In July, Mr Funaro was arguing that the country had a right to expect a multi-year debt rescheduling, excluding the involvement of the International Monetary Fund, as a consequence of its healthy trade performance and success in reducing inflation.

Today, while still rejecting a role for the IMF, the country is likely to request favourable terms as an urgent necessity.

Tan Sri Khoo quits Standard Chartered after Brunei scandal

BY DAVID LASCELLES, BANKING CORRESPONDENT, IN LONDON

TAN SRI Khoo Teck Puat, the Malaysian businessman, yesterday resigned from the board of Standard Chartered, the bank he helped rescue from last summer's £1.3bn ($1.82bn) takeover bid from Lloyds.

The one-line announcement from Standard gave no reason for his departure. The bank refused to comment.

However, Tan Sri Khoo's resignation comes in the wake of severe problems at the National Bank of Brunei in which he is the majority shareholder.

Last week, the bank was raided by police, and his son Khoo Ban Hock was detained on charges of alleged conspiracy to defraud the bank, and of false accounting. The incident, which has become a major banking scandal in Brunei, was expected to affect Tan Sri Khoo's wider business interests.

His resignation also raises questions about his availability to become a director of British & Commonwealth Shipping which is in the process of acquiring Exco, the money broking concern in which he has a 29 per cent interest, and which has said it will invite him to join the board.

Last summer Tan Sri Khoo bought a 5.2 per cent stake in Standard Chartered as part of a huge defensive operation mounted by Standard's Far East allies against Lloyds Bank. It was as a result of this stake that he was invited on to Standard's board in August.

Tan Sri Khoo also has hotel and property investments in Europe, South East Asia and Australia. The acquisition of stakes in Standard Chartered and Exco were part of a plan to broaden his investments in Britain.

His resignation sparked considerable speculation in the markets about Tan Sri Khoo's intentions with his Standard shares. On the London Stock Exchange the shares closed down 9p at 815p.

It was thought possible that his block might be acquired by Mr Robert Holmes à Court, the Australian businessman who was also in the rescue operation and holds about 10 per cent of Standard Chartered.

Our Financial Staff adds: The Brunei Government yesterday unlocked funds held by depositors with National Bank of Brunei (NBB), control of which it seized a week earlier at the start of the case involving allegedly improper loans made to interests related to directors.

The Sultanate's Finance Ministry said personal and corporate accounts as well as savings and time deposits would be transferred to Hongkong and Shanghai Bank, payable with interest.

CIA linked to shipment of Iranian arms

BY LIONEL BARBER IN WASHINGTON

THE US Justice Department inquiry into secret American arms shipments to Iran has widened into a full-scale criminal investigation including the Federal Bureau of Investigation.

The Justice Department's announcement came amid revelations about CIA involvement in weapons shipments to Iran in November 1985, two months before President Reagan secretly authorised arms sales to Iran.

Senator David Durenberger, the Minnesota Republican who chairs the Senate Intelligence Committee, said that the CIA had arranged an aircraft in November 1985 for transport of what it thought were oil-drilling parts for Iran but which turned out to include weapons.

The latest disclosure appears certain to fuel demands by Congress for an independent special prosecutor to establish whether US laws were violated by the arms deals which led to up to $30m being diverted to Contra rebels in Nicaragua.

The wide-ranging Justice Department inquiry, led by the US Attorney General Mr Edwin Meese, a close friend of President Reagan, appears to be aimed at heading off such demands.

President Reagan celebrated a sombre Thanksgiving holiday at his mountain ranch in Santa Barbara, California, yesterday in the knowledge that the arms scandal had deeply damaged his popularity.

An ABC news poll conducted after the President sacked a top White House aide, Lt Col Oliver North, and accepted the resignation of his National Security Adviser Admiral John Poindexter, showed that his job approval rating had fallen to 53 per cent compared with 67 per cent in September.

Two-thirds of those questioned said they believed Mr Reagan knew about the Iran-Nicaragua link from the start and eight in 10 did not believe that the sacking of Lt Col North ended the controversy. Overall, 67 per cent said they disapproved of the President's handling of the Iran arms affair.

Mr Reagan's public approval rating has not dipped so low since the controversy surrounding his deployment of US marines in Beirut. But it is higher than it was in January 1983.

Criticism in the US press, though centring on Mr Reagan earlier this week, has shifted to Mr Donald Regan, White House Chief of Staff. Mr Regan's claims that he knew nothing of the secret funnelling of funds to the Contras has been met with almost universal disbelief.

Press comment on the appointment of a three-strong panel headed by Senator John Tower, the conservative from Texas, has been more favourable.

Continued on Page 22

Reagan strong man who shoots from l ip, Page 5

Citizen Watch plans UK computer plant

BY CHRISTOPHER PARKES IN LONDON AND CARLA RAPOPORT IN TOKYO

CITIZEN WATCH, the Tokyo-based watch, office equipment and precision machinery manufacturer, is planning to build a computer printer factory in Britain to serve the European market.

Citizen is understood to be talking to the French and West German governments, although Britain is favoured because of the relative lack of language difficulties and the success of existing Japanese ventures in the country.

The company said it was considering manufacturing in Europe as a way of avoiding possible trade friction. A British base would also help relieve the difficulties Citizen and other Japanese companies are having with the strength of the yen.

Corby, in central England is understood to have scored most plus points in a preliminary survey of possible sites carried out last month by Mr Seiichi Hayashi, the director responsible for corporate planning.

He also visited Milton Keynes, north of London, Wales, Scotland and Northern Ireland. Ulster was favoured for the scale of financial assistance available, but Corby was considered more suitable as a distribution centre.

The company stressed, that no decisions had been made on the site, the timing of the venture or the size of any investment. The British Gov-

Continued on Page 22

Analysis, Page 35

Thatcher blocks parliament discussion of spy case

By Peter Riddell in London and Chris Sherwell in Sydney

MRS Margaret Thatcher, the UK Prime Minister, yesterday firmly put up the shutters on further questions about her Government's approach to its decisions about MI5 and the current court case in Australia involving Mr Peter Wright, the retired MI5 agent.

However, the SPD/Liberal Alliance has inaugurated a half-day House of Commons debate, due next Wednesday, on "the need for a select committee of Privy Councillors to oversee the security services."

The developments came as an angry Mr Justice Powell, of the New South Wales Supreme Court, issued an unqualified demand that the British Government allow him to see confidential documents in relation to the UK's attempt to suppress publication by Heinemann Australia of Mr Wright's controversial memoirs.

Although the judge has criticised the British position before, his remarks yesterday were the most wounding yet. British officials present in the court – among them Sir Robert Armstrong, the Cabinet Secretary – looked visibly pale and embarrassed.

Mrs Thatcher's firm stand yesterday followed her comments on Tuesday on the distinction drawn by the Government between disclosures by former serving officers of MI5, such as Mr Wright, whom it believes are bound by the ties of life-long confidentiality, and books written by journalists even with Mr Wright's co-operation.

However, she declined to elaborate yesterday, citing past precedent on security issues and saying it would be "inappropriate" to comment on the Wright case.

The Prime Minister challenged Mr Neil Kinnock, the opposition Labour leader, to table a censure motion – a suggestion he later dismissed as "evidence of her desperation."

Mr Kinnock said the real political issue was "who was the clown who sent Sir Robert Armstrong to Australia and subjected the system not to scrutiny but to this form of ignominy."

Senior ministers believe the affair is mainly of metropolitan interest and has made little impact upon voters, but it will not go away immediately. During next Wednesday's debate Mr Douglas Hurd, the Home Secretary, is expected to in-

Continued on Page 22

UK secret service that "never was", Page 21

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CONTENTS

EUROPEAN NEWS

Prague rumour-mongers highlight debate over economic reform

Leslie Colitt reports on speculation over a Soviet-backed reshuffle

PRAGUE is buzzing with rumours of a forthcoming Soviet-sponsored reshuffle in the leadership of the Czechoslovak Communist Party.

In Budapest last week, rumours of imminent senior personnel changes led to heated debate on economic reforms and problems in the central committee. In spite of the rumours, however, the ruling Politburo under Mr Janos Kadar remained untouched.

A top level meeting of the Czechoslovak central committee next week is almost certain to produce less debate on economic problems than in Budapest. And the rumoured departures of senior members of the ruling praesidium, including Mr Gustav Husak, the general secretary of the party, seem largely based on wishful thinking.

The intensity of the rumours, in spite of their lack of credibility, is symptomatic. Political rumour-mongering is one thing in the liberal political atmosphere of Budapest and another in orthodox Prague. Czechoslovakia was politically sanitised after Moscow crushed the reform communist movement under Mr Alexander Dubcek in 1968. Even the mention of economic reform in Prague still arouses fears among Czechoslovak officials.

Rumours of leadership changes have been sparked by the glaring contrast between the youthful, reform-minded Soviet leader Mr Mikhail Gorbachev and the ageing leaders of Czechoslovakia and East Germany. Both Mr Husak and Mr Erich Honecker in East Berlin are deeply suspicious of economic reforms and Mr Gorbachev's call for "democratisation."

President Husak has made sure that, at the age of 73, he still has no domestic rivals. One possible *successor*, Mr Milos Jakes, the praesidium member responsible for the economy, has none of Mr Husak's innate shrewdness.

Mr Lubomir Strougal, Czechoslovakia's Prime Minister, was long *regarded as a possible* replacement for President Husak.

Although economic reform is today the operative phrase in the Soviet Union, maintaining stability is still paramount in Moscow's relations with its six Eastern European allies. A Soviet attempt to hasten a change in the Prague leadership carries severe risks for Moscow. Prior to Mr Husak, the last Soviet approved party chief of Czechoslovakia was Mr Dubcek, who rose to power in 1967.

Thus, while President Husak may not be Mr Gorbachev's idea of an economic reformer, he has other virtues in Soviet eyes — it was Mr Husak who purged the party of "revisionists" while holding at bay the ultra-conservatives in the praesidium.

Clearly, though, the Prague leadership is uneasy about the widespread perception in Czechoslovakia of Mr Gorbachev as a fearless political and economic innovator and Mr Husak as defender of the status quo.

This growing nervousness caused the main *Czechoslovak* party newspaper Rude Pravo last month to deny rumours that distribution in Czechoslovakia of the Soviet party newspaper Pravda had been held up in Prague.

In East Berlin, by contrast, there are no *rumours* about any plans for Mr Honecker's retirement. The 74-year-old party leader presides over the most successful Communist economy and constantly reiterates East Berlin's loyalty to *Moscow*. However, at the East German party congress last May, attended by Mr Gorbachev, *there* was strong evidence that, although impressed by the economic results, *the Soviet* leader was much less enamoured of the East German leadership's interminable self-*congratulations*.

Ordinary East Germans give Mr Honecker high marks for political acumen but are less impressed by the economic results. Their daily confrontation with the market place and the proximity to West Germany and West Berlin reinforce their scepticism.

The East German leader, unlike Mr Husak, has chosen a young "crown prince," Mr Egon Krenz, who is responsible in the Politburo for the vital areas of internal security and youth affairs. But Mr Honecker has not given the slightest hint of any retirement plans.

Over the past year Mr Gorbachev has become the most popular Soviet leader in memory among East Germans and Czechoslovaks, who hope his influence will inspire a more market-oriented economy in their own countries.

This, however, will depend on the success of Mr Gorbachev's economic measures at home and the willingness of Prague and East Berlin to launch basic economic reforms.

Jaruzelski attacks tampering with changes

BY CHRISTOPHER BOBINSKI IN WARSAW

THE POLISH party leader, General Wojciech Jaruzelski, has openly criticised government officials who recently tried to force several centralising changes in economic reform legislation through parliament. He was speaking here at a congress of the new trade unions set up in 1982 to replace the banned Solidarity movement. These now claim 7m members.

The action had been an "unfortunate mishap" he said, speaking at the Communist party's commitment to the powers given to workers' self-management councils set up under the original reforms. It was these powers that the new legislation had sought to cut.

The Government's planning commission last month drew up the proposed changes which have now been modified after a *storm of criticism from* supporters of the decentralising reforms enacted in 1981. However, ultimate responsibility lies with the Prime Minister, Mr Zbigniew Messner.

Gen Jaruzelski announced yesterday that a party central committee meeting next month would be devoted to deciding how to proceed with economic reform policies and this could see more criticism of the Government.

Meanwhile, Mr Alfred Miodowicz, leader of the new unions, continued with the anti-bureaucratic vote and complained in his keynote speech about the arrogance of officialdom but he was careful to declare allegiance to the Communist Party which he said was allied in the struggle.

He also warned that the number of homes built in the large cities should be increased rapidly, or public discontent about the issue threatened to grab the authorities "by the throat." This strong trade union demand would imply a significant revision in spending priorities in the draft 1986-1990 plan now going through Parliament for final approval.

Union leader Alfred Miodowicz addresses the congress; Gen Jaruzelski (left) looks on

Patrick Cockburn on Gorbachev's reforms

Economic change promises quick improvement to Soviet lifestyle

Mr Mikhail Gorbachev became Soviet leader last year largely because of his reputation as an economic reformer. It is only over the last two months, however, that the extent of the economic *changes* he plans to introduce by the end of next year have become clear.

The most radical change planned is the legalisation of manufacturing and producing enterprises organised on a co-operative basis. This is likely to become law next year according to Dr Leonid Abalkin, who became head of the influential Institute of Economics in Moscow last June, and is a member of Mr Gorbachev's advisory team during the Soviet leader's trip to India.

Dr Abalkin says that individuals will be free to establish manufacturing and producing co-operatives, which will be largely free to market and price their products without state control. This will add an entire new sector to the Soviet economy and could contribute between 10 and 12 per cent of the country's national income (roughly equivalent to gross *national product*) within ten years.

These enterprises, producing mainly quality goods for the consumer market, will have a greater impact on the Soviet economy than the individual labour law which was passed by the Supreme Soviet, the Soviet Parliament, last week.

This law will affect between 2m and 3m people, out of a total Soviet labour force of 129m within a year, say senior Soviet officials. It should double the estimated contribution to the economy of legal and illegal labour of between 10bn and 12bn roubles (£10bn-£12bn).

Other changes in Soviet economic management to be introduced from the beginning of 1987 include:

- Freeing light industry from central planning direction over quantity and quality of output, all of which must be sold under contract to other enterprises.
- An end to the monopoly enjoyed by the Foreign Trade Ministry over foreign commerce since the *1930s under* which 21 ministries and 70 enterprises will get foreign trading rights.
- Changes making five important ministries self-financing so that they must fund themselves out of their profits.

The most radical changes are concentrated on the neglected service sector, the production *of* consumer goods and agriculture. Here, economic management should look completely different from that under Mr Leonid Brezhnev and his predecessors.

Mr Brezhnev was also eager to increase the supply of food, consumer goods and services to the population but despite food subsidies, which will total 58bn roubles in 1987, he failed to do so.

Mr Gorbachev has decided to take a different and more radical approach. He needs to do so because Soviet capital resources are *already* tightly stretched. Capital investment in re-equipping Soviet industry has gone up and agriculture, energy and defence all require large resources.

Only by introducing a degree of private or co-operative initiative in small scale manufacture of consumer items, allowing craftsmen to work privately and legalising second jobs can the supply to the consumer be increased to anywhere near the amount needed to satisfy demand.

The commanding heights of the *economy*, and most of the foothills, remain firmly in the hands of the state, for the restructuring of ownership is put in the service and consumer sector. Heavy industry, transport and raw materials remain in the hands of the Government.

But the reforms will nevertheless change the style and standard of living for many, perhaps most, Soviets. The impact will vary across the country. Dr Abalkin said he is concerned that in central Russia, where there is little tradition of small businesses and craftsmen, the impact of the new laws may be much less than in the Baltic republics. In cities like Moscow he expects tailoring, car repairs, household repairs and cafes to attract individual workers.

The state banks will provide credit for individual workers and co-operatives. Small-scale manufacturing of basic items in short supply should find a ready market in the smaller towns and villages.

Soviet planners have looked at the experiments in East Germany, Hungary and China when deciding on their changes. East Germany is the model most often cited.

It has a well-developed private sector of 82,000 craftsmen and 3,000 co-operatives outside state planning. They provide two thirds of *services*.

Hungary is less often mentioned by Soviet economists as a useful example, although they say they have looked at the Hungarian experience of second jobs and individual labour.

Soviet economist see China as a largely rural country, well behind the Soviet Union in development. Allowing Chinese small farmers to market a proportion of their produce at free *market prices* has a much greater impact on the Chinese economy than it would in the Soviet Union, where two thirds of the 280m population work in the cities.

The changes are unlikely to spur the Soviet Communist party into diluting its control over the country but the de*centralisation* of economic decision-making in agriculture and the service sector will inevitably give more authority to the regions.

Moscow will retain its control over the allocation of investment, however, and the price of basic commodities will still be determined centrally, although links between increased quality and higher prices will be closer.

Dr Abalkin says a general price rise, combined with an increase in wages to help low income families, was considered but rejected in favour of higher prices for better quality goods.

Yugoslavia to cut spending

THE YUGOSLAV Government has proposed a substantial real cut in spending over the next year, according to figures in the state-run newspaper Politika, writes our Foreign Staff.

The 1987 draft federal budget provides for a 37.3 per cent rise in spending over 1986. But inflation has already soared to 95 per cent for the year to end-October, amid predictions that it could top 100 per cent.

At *Dinars 1,971.6bn* (about £3.2bn) the budget is considerably smaller than the combined budgets of the country's six republics and two provinces.

As usual, the biggest item in the federal budget is defence *spending* which, at *Dinars* 1,323.7bn represents nearly 70 per cent of total allocations.

Portuguese agree new loans with EIB

By Diana Smith in Lisbon

THE PORTUGUESE Government and the European Investment Bank (EIB) this week signed three loan contracts worth Ecu 66m (£46m) destined to help finance major improvements to Portugal's road and rail systems.

As an EEC member, Portugal now has access on presentation of suitable projects to unlimited EIB funds. In 1986, it will receive up to Ecu 200m and next year, between Ecu 250m and Ecu 300m.

Because it was in particularly urgent need of financial help from the time the 1975 revolution broke out until accession on January 1 this year, Portugal has received Ecu 725m in EIB loans in the past 11 years, directed mainly to improving infrastructure, energy supply, and more recently, modernisation of small and medium enterprises.

This week's three contracts cover an Ecu 45m loan to the national railway network for improvements to the Lisbon-Oporto route and rolling stock;

An Ecu 11m loan to the National Road Board to build further stretches of the new rapid highway that will run east from the port of Aveiro – where the EIB is also financing port improvements – to the frontier with Spain, greatly increasing the speed of movement of goods;

And a loan of Ecu 10m to motorway constructors Brisa to build a 38 km stretch of the Lisbon-Oporto motorway which has been under slow construction for the past decade.

The EIB is hoping to finance a growing number of projects for modernisation and improved productivity of small to medium businesses and *to* channel substantial funds for regional development.

Unions call for tougher rules on chemicals

By William Dawkins in Brussels

A SET of world guidelines for preventing chemical accidents was launched by the International Confederation of Free Trade Unions yesterday. The organisation said workers should have the right to refuse dangerous tasks.

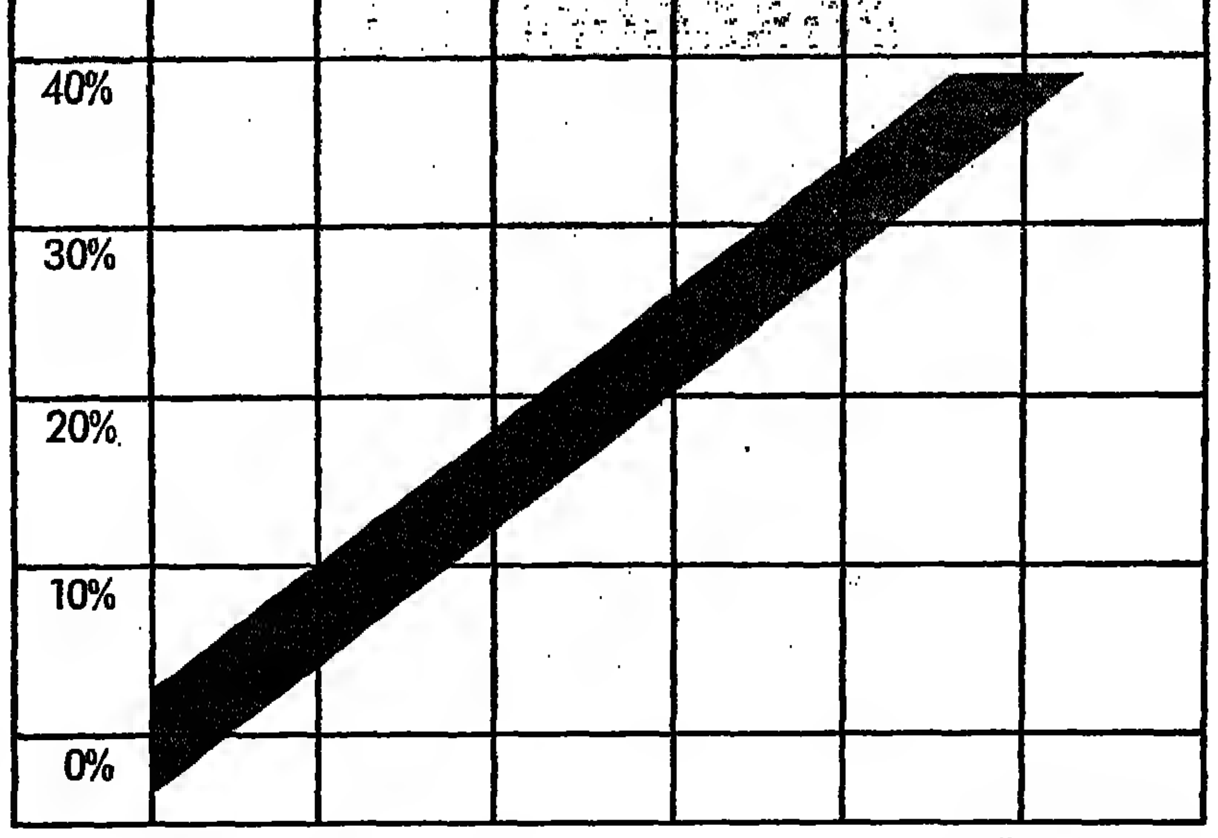
The Confederation's 14-point plan, calling for tougher safety standards in all businesses involved in making or handling chemicals, will be sent to 149 affiliated national union bodies round the world.

The union groups will be expected to negotiate with employers and governments on the basis of the plan, which the Brussels-based confederation claims is the first attempt by a union grouping to establish world standards for an industrial sector.

Swiss pollution

Half the trees in Switzerland have been damaged by air pollution, forestry experts reported yesterday, Reuter reports from Berne. This compared with 36 per cent in a survey conducted last year. The study of more than 8,000 trees at 766 locations, showed damage was worst in the Alps, where about 60 per cent of trees were affected.

To be N°1 in Japan, you have to be very, very good.



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EEC ministers reject farm spending cuts

BY QUENTIN PEEL IN BRUSSELS

EEC BUDGET MINISTERS yesterday rejected an attempt by the European Parliament to cut the Community's farm spending, and to set up a special Ecu 2.5bn (£1.8bn) fund to dispose of surplus food stocks.

In the next breath, they admitted they would have to approve a supplementary budget early next year to cover a yawning gap between their revenue and spending plans, knowing already that it will exceed the cash available.

The latest act in the Community's intricate budgetary ballet ended at 6.30 am when Mr Peter Brooke, the British Minister of State at the Treasury and current chairman of the Budget Council, announced unanimous agreement on a Ecu 36.25bn (£26.46bn) spending plan.

The deal was done only after the ministers agreed not to alter their own proposal for farm spending of Ecu 22.96bn — 63 per cent of the total — while trimming back the Parliament's additions in other fields, such as research and investment, education, information and industrial policies, and aid to developing countries.

They were unable to reach any agreement on cutting the current year's spending to cope with a drop in revenue of some Ecu 1.3bn—ensuring that the money will also have to be found in 1987.

European Commission officials said yesterday that EEC needs are now certain to exceed the ceiling on member states' contributions to Brussels in the course of next year.

The spare cash left within the ceiling, on the basis of yesterday's budget figures, is just Ecu 729m. In addition to the overspending of some Ecu 1.3bn from 1986, Commission officials already estimate a further shortfall in 1987 of around Ecu 3bn.

If member states do not agree to another round of emergency budget contributions in the course of the year, the excess of Ecu 4.3bn over Ecu 729m will simply have to be put off for financing in 1988.

The budget ministers did make one token gesture towards the Parliament's proposals by opening a new line in the budget, without any money in it, for "measures to secure reductions in agricultural stocks."

A British proposal to issue a declaration supporting the Parliament's desire to prune farm spending, but pointing out that the responsibility is that of the agriculture ministers—failed to win approval. It was too forthright for both France and West Germany.

Instead, Mr Brooke will simply have to persuade the Parliament that the ministers mean their best, even if the figures do not quite match reality. The European Commission has been asked to submit a supplementary budget by the spring.

Commission fines Dutch dairy price cartel £4.7m

BY TIM DICKSON IN BRUSSELS

STIFF fines totalling Ecu 6.5m (£4.7m) have been imposed on a group of Dutch dairies for breaking the EEC's competition rules. The European Commission explained yesterday that the five dairies had operated a price fixing cartel covering at one time more than 90 per cent of the market in the Netherlands. Production and conditions of sale were also controlled, with quotas allotted to each member and a system of payments and compensation operated to make it work.

The case, which has taken several years to bring to light, is a very rare example of the application of the EEC's competition rules in the agricultural sector. A Commission official said yesterday that the infringements were "serious and merit substantial fines" but that there were several mitigating circumstances.

Among these were the fact that four out of the five dairies were co-operatives, the significant concentration of power in the Netherlands in the hands of big retailers, and the vulnerability of the Dutch market to imports because of the relatively high minimum price of fresh milk of domestic origin.

One of the original objectives of the Meldoc cartel was to protect the home market through specific actions against imports from Belgium and West Germany.

Aldi, a large supermarket chain with establishments in the Netherlands, agreed to discontinue imports of low priced UHT milk from West Germany after Meldoc offered a matching price. The losses suffered were shared by all members of the cartel. Meldoc also succeeded in replacing through agreement on pricing imported plastic-bottled UHT milk with its own UHT milk in cartons.

A so-called "dumping" operation was launched on the Belgian market. Milk of Dutch origin was offered to Belgian retailers at unprofitable prices with losses again shared among members of the cartel. The action was aimed at persuading the Belgian suppliers to stop their exports to the Netherlands.

Bonn expels five Syrian diplomats

By Andrew Fisher in Bonn

WEST GERMANY yesterday ordered five Syrian diplomats to leave the country and refused to send a new ambassador to Damascus. It also said aid to Syria would be blocked.

The moves follow the heavy prison sentences handed down this week to two Jordanians who admitted a bomb attack in March on the offices of the German-Arab Society.

In West Berlin, the Western military allies, the US, France, and Britain, also decided to exclude "certain Syrian citizens" from entering East Berlin as a result of the conviction.

Bonn has given three Syrian diplomats a week to leave the country and asked the Syrian embassy to cut its military staff from four to two by an unnamed date. Syria has denied involvement in the bomb attack in West Berlin, but the court there said the Jordanians had obtained the bomb from Syria's embassy in the East part of the city.

The men who carried out the bombing, Mr Ahmad Hasi and Mr Farouk Salameh, received sentences of 14 and 13 years respectively. Mr Hasi is the brother of Mr Nezar Hindawi, jailed for 45 years in London last month for the attempted bombing of an El Al airliner. The UK broke off diplomatic relations with Syria as a result, but West Germany is reluctant to take such a drastic step.

The West German Government also said it would no longer recognise one-journey passports from Syria, stating that these may have been issued to terrorists. It made clear that its actions were directed more against official Syrian agencies than the Damascus Government.

The Government said the involvement of Syrian agencies, as shown in the Berlin court decision, was in contempt of the basic rules governing relations between states. It called on the Syrian Government to stop aiding any groups or persons involved in terrorism.

West Germany will not name a new ambassador to Syria until further notice. The former ambassador left the country earlier this month at the end of his assignment.

● The Soviet party newspaper Pravda yesterday accused Chancellor Helmut Kohl of harbouring "primitive hostility" towards the Soviet Union and East Germany, Reuter reports from Moscow.

It said his recent comparison of Mr Mikhail Gorbachev with Joseph Goebbels was "monstrous and immoral."

The article was one of the most bitter attacks on e leader of a foreign state with which the Kremlin maintains diplamatic relations seen in Moscow for many years.

THOUSANDS DEMONSTRATE AGAINST EDUCATION CHANGES

Student protesters throng Paris

BY DAVID HOUSEGO IN PARIS

UNIVERSITY STUDENTS and secondary school pupils thronged through the streets of Paris yesterday in e mammoth demonstration against the new university legislation that closed large parts of the Left Bank to traffic for hours during the afternoon.

Carrying banners and chanting slogans lampooning Mr Alain Devaquet, the Minister responsible for higher education, the students marched good humouredly and in disciplined order to the Esplanade des Invalides. Riot police with water cannon blocked access to the National Assembly which was due to have begun to debate the new legislation.

The organisers claimed that 300,000-400,000 students took part in the demonstration which filled the boulevards that lead from the area of the Sorbonne. Police put the numbers et about 200,000, while an official count by the Prefecture of Police said that about 100,000 took part.

In addition 350,000 students, according to the French news agency AFP, took part in similar demonstrations in some 50 towns in the provinces. The numbers were far larger than the Government had expected and mean that it will be under strong pressure to make concessions. The students only began organising the protest on Saturday.

Before the march began, Mr Denis Baudoin, the government spokesman, said that Mr Jacques Chirac, the Prime Minister, considered that the protest was "the crest of a wave" and would subside. Mr Baudoin said that the Socialist party was attempting to exploit the movement for political purposes, adding that President François Mitterrand had made no objection to the bill when it passed through the cabinet.

Children from secondary schools skipped lessons to take part in the demonstration, which included contingents from some of the most best known lycees in Paris. Scattered among the banners denouncing the new legislation were humorous slogans such as: "Swap a share in Saint Gobain for a place at Paris I (university)."

The students succeeded in their goal of banning overtly political banners from the march — though the main organisation for it came from left-wing student organisations.

A small delegation of the student leaders met representatives of the main political parties in the National Assembly. Mr Jean-Marie Le Pen, the leader of the extreme right-wing Netional Front, was booed wben be stepped out to speak with the demonstrators.

Greece struggles to keep down spending

BY ANDRIANA IERODIACONOU IN ATHENS

HALFWAY through Greece's two-year economic stabilisatiun programme, public sector spending remains e serious problem, according to figures released by the Finance Ministry yesterday with the tabling of the 1987 state bndget in Parliament.

Temporary figures for 1986 sbow that the targat of e 4 per cent reduction in the budget deficit compared to 1985 will not be met. This is due to some Dr 100bn (£505m) in excess spending and in spite of e slightly better than expected performance on the revenue side. The decrease in the deficit is projected at 1.4 per cent.

The Finance Ministry report on 1986 shows that expenditure rose because of extra pensions payments, export subsidies and European Community contributions, as well as bigher than budgeted public sector debt servicing costs resulting from changes in foreign currency rates.

The figures also reveal that the overall operating deficit of Grece's 50 public sector organisations and corporations including electricity, water, telecommunications and transport, increased by 3.1 per cent et current prices, against a 24.6 per cent reduction target.

Low productivity, poor organisation and below-cost prices are blamed chiefly for the poor performance.

Efficiency

Next year's budget predicts a 22.3 per cant decrease in the operating deficit of public sector organisations and corporations ot current prices, relativa to this year, from Dr 154.9bn to Dr 120.4bn. A strict reform programme to improve efficiency is to be applied. This includes eteps to rednce costs and improve the quality of services. There is no indication, however, that measures will be taken against overstaffing, generally recognised as e serious problem in the Greek public sector.

The budget deficit is forecast to widen by 5.2 per cent to Dr 688bn.

Mr Dimitris Tsovolas, the Finance Minister, said the tax burden of pensioners and those on low salaries would be eased to compensate for losses in real income due to tha tight wage policy for 1986 and 1987 but withont affecting competitiveness. The changes will cost an estimated Dr 15bn.

Defence spending is to go np by 20.7 per cent, and health and social welfare spending by 31.4 per cent. In other sectors expenditura is programmed to keep approximate pace with inflation, for which the authorities have set a 10 per cent target. Public debt servicing costs are to go up next year by 27.4 per cent relative to 1986 to Dr 525.5bn.

A 23.4 per cent increase in revennes from direct taxes is forecast and e 25.4 per cent rise from indirect taxes. Tax on cigarettes is to be raised to generate an extra Dr 12bn. According to the Finance Ministry, valne added tax which is dne to be introduced in Greece next January will be neutral in terms of revenue.

Negotiations

Net EEC receipts are expected to increase by 68.9 per cent to Dr 255.9bn.

The tabling of the 1987 budget coincided with the start of a period of intense negotiations in Brussels for the second tranche of an Ecu 1.75bn support loan to Greece, dne to be approved by the end of this year. In order to qualify Greece is committed to reducing its pnblic sector borrowing requirement from 18 per cent of GDP at the end of 1985 to about 10 per cent by the end of next year.

France to spend more on fight against Aids

By George Graham in Paris

FRANCE YESTERDAY joined the fight against Aids. Mrs Michelle Barzach, the Health Minister, announced increased spending on research into the disease and its treatment, and a publicity campaign to teach the public about the dangers of Aids.

Since 1982 France has recorded 1,050 cases of Aids, and the number is now rising at 15 cases e week. Homosexuals still account for 68 per cent, but the virus is spreading rapidly among heterosexuals, especially drug addicts.

"Forty-three per cent of new Aids cases in the third quarter of this year were beterosexuals, and it is this that has led us to take these new measures," Mrs Barzach said.

The programme includes free screening, which will cost FFr 20m (£2m) this year and is expected to rise to FFr 37.5m in 1987. Aids will also be included in the list of lengthy and expensive illnesses for which all treatment is free.

The extra cost of treatment is already causing bndget overruns in the bealth service, and Mrs Barzach announced an additional credit of FFr 40m this year, to be reviewed for 1987.

The publicity campaign to be leunched early next year will be aimed particularly at areas such as schools and the army, which are thought to be particularly vulnerable. A larger booklet will be circulated to the health professions.

Tha Government is currently putting througb legislation to allow advertising for condoms, but Mrs Barzach said she had decided for the time being not to allow the free sale of syringes, even though shared needles are a serious cause of the spread of Aids among drug addicts.

Italian tax proposals revealed

BY JOHN WYLES IN ROME

ITALY's Finance Minister, Mr Bruno Visentini, has revealed plans to lighten tha tax hurden on medium to high incomes in a move which shows few signs of calming growing rifts within the governing coalition.

Mr Giovanni Spadolini, who leads Mr Visentini'a party, the Republicans, has been pouring fuel on the flames all week in such a way as to revive speculation that Italy may yet be forced into an early election next year.

The presence of Liberal party leaders in last Sunday's march of 30,000 protesters against the taxation system brought a blistering condemnation from Mr Spadolini that this was further evidence that tha five-party coalition was no longer bolding together around its agreed policies.

These include the initiative which Mr Visentini, wbo shares his leader's suspicion of street politics, chose to reveal at a meeting with top union leadars on Wednesday. His modest reforms go only a small way towards meeting the Turin protestors' demands, although they should reduce tax demands levied on incomes between L30m (£15,000) and L50m (£25,000) a year.

The minister also promised to deal with inflation-indnced "fiscal drag" and to increase tax allowances in households with a single earner.

Mr Spadolini'e outrage that the Liberal party should be identified with far more extensive demands for tax liberalisation has been fed by his dissatisfactiou with other aspects of government policy. He was left unsupported by his colleagues for several days to face opposition attacks on tha Government's possible involvement in arms trading with Iran. He also appears unheppy with signs of a growing rapprochement with Libya whicb is being encouraged by Mr Bettino Craxi, the Prime Minister, and Mr Giolio Andreotti, the Foreign Minister.

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OVERSEAS NEWS

SIGNING OF 60-DAY TRUCE HALTS 17-YEAR COMMUNIST INSURGENCY

Philippine truce raises conflicting emotions

BY STEVEN BUTLER IN MANILA

WHEN Mr Ramon Mitra and Mr Satur Ocampo embraced yesterday, after signing the first nationwide ceasefire agreement in the Philippine's 17-year-old Communist insurgency, there was little doubt the emotion was genuine.

Mr Mitra, the Agriculture Minister representing the Government, and Mr Ocampo, representing the Communist National Democratic Front (NDF), have met repeatedly since August 5 in what appeared an impossible task of bringing the two warring sides together.

The talks were broken off several times, but none the less weathered the storms of politically inspired assassinations, apparent coup attempts, terrorist bombings in Manila, open opposition from the armed forces of the Philippines, and deep divisions within the rebel camp about whether to give up armed struggle.

Final agreement came after President Corazon Aquino fired her rebellious defence minister, Mr Juan Ponce Enrile, and warned the Communists that she would break off talks and return to war unless agreement was reached by the end of this month.

Now with the guns scheduled to fall silent for 60 days on midnight, December 10, the two sides face an even more daunting task — to turn this fragile agreement into an enduring peace settlement that will remove what is in effect a strong competing government in the Philippines.

The New People's Army (NPA), which the NDF negotiators represent, has an estimated 22,500 troops and controls about 20 per cent of the country. While the Government would like the rebels to lay down their arms and participate in the nation's open, legal political system, this would cause the rebels to lose the basis of their political power and they will demand something in return.

Mr Ocampo yesterday said the NDF had never stated that it would settle for nothing less than a coalition government. Yet it will certainly seek some form of power-sharing, something that is an anathema to the military, whose soldiers continue to die from NPA bullets.

The agenda topics that Mr Ocampo suggested for substantive peace talks aimed at a more enduring agreement included issues such as human rights, social welfare, and the presence of US bases in the Philippines. "Human rights" is a code phrase for abuses of the military, and while these other issues are important in the Philippines, many are already enshrined in a proposed constitution, which will be voted on in a plebiscite on February 2, and would be subject to legislative action when a new assembly is elected in May.

Mr Mitra: 'a respite'

Communist rebels will press for the closing of US military bases during talks with the Government in their ceasefire agreement signed yesterday, two rebel negotiators said, AP reports from Manila. Mr Satur Ocampo and Mr Tony Zumel made the remarks following the signing of the cease-fire pact.

Meanwhile, Mr Juan Ponce Enrile, the former defence minister, is considering entering politics. "If they want me, or any opposition group needs a leader, then they can count on me," the Philippine Daily Express quoted Mr Enrile as saying.

It is hard to see how Mrs Aquino can negotiate these items with communist rebels when she is already committed to letting them be resolved through new democratic institutions.

Beyond this, of course, is the nettlesome question of precisely what the intentions of the communists are. Mrs Aquino last Sunday, in a rare show of frustration, railed that the communists had no real interest in peace.

With this statement, she echoed a sentiment repeatedly expressed by her former Defence Minister whom she had just fired. Mr Enrile and other senior military officials have repeatedly warned that a ceasefire benefits the rebels more than the Government because it gives them an opportunity to rearm and regroup, and to operate openly to consolidate their political hold over the countryside, while expanding in cities.

Although Mr Enrile is now gone from the Defense Ministry, and his staff of ambitious colonels being dispersed, the armed forces is still deeply divided over the communist question. Anti-communist demonstrations inside southern military camps is said to be one factor that prompted Gen Fidel Ramos, the chief of staff, to move to oust Mr Enrile.

If rebellious units of the armed forces wish to scuttle the agreement by staging violations, it could be difficult to monitor and prevent. Conversely, the NPA could stage its own incidents in an effort to discredit the armed forces, whose integrity is widely questioned in the Philippines.

It is often pointed out in Manila that ceasefire agreements with Communist insurgents have never worked anywhere in the world. Mrs Aquino's attempts to tread down this path again have been labelled by one diplomat as "impossibly naive," because it would only lead to bolstering the political strength of the left.

Mrs Aquino's point of view, however, which many Filipinos share, is that the rebels are Filipinos and Catholics before they are Communists, and that a sincere will to peace will overcome political differences, which are rooted mainly in the years of martial law under former President Ferdinand Marcos.

Having come this far, it is obviously premature to dismiss Mrs Aquino's approach.

"Wherever the ceasefire may lead," said Mr Mitra yesterday, "it gives our people a respite from the 17 years of fighting. It gives us a chance for talking instead of fighting."

This is something that until yesterday the Philippines did not have.

Three freed in S Africa treason trial

By Anthony Robinson in Johannesburg

THREE OF the 22 prominent United Democratic Front (UDF) and black community leaders on trial for the past year on charges of treason and murder were released by the trial judge in Delmas, Transvaal, yesterday and six more were granted bail.

Hopes that charges against all 22 would be dropped following the precedent set by the release of 16 people facing similar charges in Pietermaritzburg earlier this year proved unfounded.

The "Delmas 22" who include Mr Popo Molefe, UDF general secretary, Mr "Terror" Lekota, UDF publicity secretary, and the Rev Moses Chikane, Transvaal secretary of the UDF, are facing charges arising out of the violence which erupted in the Vaal townships in September 1984.

● **Mr George Mahlangu, a 35-year-old business with no prior ministerial experience, was yesterday elected as Chief Minister of the troubled Kwandebele homeland in succession to the controversial Simon Skosana who died two weeks ago. Mr Mahlangu defeated Prince James Mahlangu who was jailed before Mr Skosana's death and was a leading opponent of "independence" for the homeland in defiance of Pretoria's wishes.**

WAR GETS CLOSER TO STRAIT

Oman and friends keep Gulf open

BY DAVID BUCHAN ON GOAT ISLAND, STRAIT OF HORMUZ

FIVE MILES out into the Strait of Hormuz yesterday, Commander Sayyid Shihab of the Omani Navy gestured towards Larak Island where earlier in the week Iraqi aircraft had made their most southerly attack on Iranian oil facilities. Iraq's ability to strike so far from home was "educational," he said. It made "more interesting" Oman's task of keeping the Gulf open to international shipping.

This striking understatement by Commander Shihab, captain of the Al Mabrukah and a cousin of Sultan Qaboos, Oman's ruler, contrasted with eye-witnesses' account of the Iraqi bombing raid. Military personnel on Goat Island, from where Oman manages the passage of shipping through Hormuz, watched as two French-supplied Mirage jets flashed past at less than 500 feet on their way to attack Larak.

Shortly afterwards they saw smoke billowing up on the horizon. The lesson, according to Omani naval officers, was that Iraqi now had the capacity to strike at any point in Iran.

The task of assuring safe passage through the Strait falls most directly on Oman, because the traffic separation scheme (TSS) introduced in 1980 to prevent collisions in the 23-mile bottleneck entrance to the Gulf, falls entirely in its territorial waters. The shorter and deeper—therefore cheaper and safer—channel lies on the Omani side of the Strait.

"With the help of friendly forces, we will try to keep the Gulf open," said Commander Sayyid Shihab. "Britain, the US, France and our allies in the Gulf Co-operation Council—these are the friendly forces in the region."

The Omani officer welcomed the new Royal Navy move to operate more frequently in the Gulf.

Warships have the "right of innocent passage" through the Strait provided they behave "normally." This is defined as sticking to the TSS route and not indulging in warlike behaviour.

The Omani navy — which on the pattern of other Omani services is led by a British admiral and has other UK sailors on secondment or direct contract — has some fighting force. In particular it has 11 British-built or designed gunboats, three of them with Exocet missiles and about as well armed as smaller UK frigates.

But the deterrent effect of this was put in doubt last month when the Kuwaiti tanker, the Five Brooks, was hit by Iranian missiles in Omani waters with loss of life. Commander Sayyid Shihab yesterday expressed the hope this was a "one-off mistake" by Iran.

Union Carbide offers Delhi $3bn guarantee

By John Elliott in New Delhi

UNION CARBIDE yesterday offered to give the Indian *Government guarantees of* assets worth $3bn in an attempt to ward off a court order requested by the Government which would restrain it from disposing of its assets while claims are pursued for victims of the lethal gas leak in Bhopal two years ago.

Last weekend the Indian Government told the Bhopal district court in central India that its compensation claims arising from the Union Carbide pesticides factory gas leak in Bhopal on December 3 1984 totalled $3bn.

Earlier it had applied for an order stopping Union *Carbide selling* off subsidiaries or other assets till the court cases on compensation have been completed.

Yesterday in the Bhopal court the company made its offers as a response to these two claims, hoping to remove India's apparent misgivings about the proposed recapitalisation and other plans.

Mr F. Nariman, the company's counsel said this did not amount to "any admission of liability nor of the quantum thereof." He also said Union Carbide was willing to give six monthly written statements to the Indian Government detailing its assets and other financial information.

Soviet, Indian call to scrap nuclear arms

By Our New Delhi Correspondent

THE Soviet Union and India yesterday called for complete destruction of all nuclear arsenals by the end of the century as part of a 10-point programme aimed at establishing a "nuclear-free and non-violent world."

In a joint declaration signed by Mr Mikhail Gorbachev, the Soviet leader, who is on a four-day visit to New Delhi, and Mr Rajiv Gandhi, Indian Prime Minister, the two countries proposed an immediate international convention banning the use of nuclear weapons.

Mr Gorbachev also addressed the Indian parliament and proposed the demilitarisation of the Indian Ocean, peaceful exploration of outer space, and the strengthening of the United Nations.

Mr Gandhi, a leading member of the non-aligned movement, said Mr Gorbachev was a "great and dynamic leader of a great and friendly country," whose proposals were "remarkable for their sweep and boldness."

Earlier in the day, Soviet defence experts promised Indian officials that they would speed up the delivery of MiG-29 fighter aircraft and Kilo-class submarines. It is understood that India also asked for early delivery of infantry combat vehicles and discussed the possible setting up in India of a factory to manufacture them.

Israelis continue air raids against Fatah

BY ANDREW WHITLEY IN JERUSALEM

ISRAELI aircraft yesterday attacked Palestinian targets in southern Lebanon for the fourth time in 11 days, bombing positions belonging to the mainstream Fatah branch of the Palestine Liberation Organisation.

The sustained series of aerial raids signals e clear break by the Israel Government with its policy of launching reprisal attacks following guerrilla incidents in Israel or in the Israel-proclaimed "security zone" in southern Lebanon.

Without any officials declaration, the Government appears to have decided to take the fight to the enemy – keeping the recently reinforced PLO units in and around Sidon and Tyre on the defensive.

So far this year, there have been 17 air attacks on the positions of Palestinian fighting factions in Lebanon ranging geographically from the outskirts of Beirut in the north to the Syrian-controlled Bekaa Valley in the east.

But by far the greatest attention has been paid to subduing targets near the large Mieh Mieh and Ei-mei Hilweh refugee camps outside Sidon and to Palestinian naval targets in the region.

Over the past week, renewed fighting has broken out between the Palestinians based near Sidon and Shia Amal militiamen, who like Israel, are anxious to block attempts by the PLO to rebuild their strength in the border region. Yesterday's Israeli air raids may, therefore, be interpreted as indirect support for the traditionally moderate Amal militia.

Kaunda seeks further austerity by Zambians

BY VICTOR MALLET IN LUSAKA

PRESIDENT Kenneth Kaunda of *Zambia, faced with hostility* from South Africa and severe economic depression at home, yesterday appealed for further sacrifices from his people, reaffirmed his commitment to economic austerity, and at the same time granted clemency to five alleged coup plotters who had faced the death sentence.

"I have been presiding over the affairs of this nation for the last 22 years," he told a news conference at State House in Lusaka. "But we have never faced a situation as grave as this one"

Dr Kaunda said malnutrition among Zambian children was increasing. He acknowledged widespread complaints about the soaring cost of living after the introduction of a weekly foreign currency auction under the auspices of the International Monetary Fund 13 months ago.

"Please lessen on luxuries, lessen on things like heavy drinking," he said. Zambia is suffering from the low price of copper, which provides 90 per cent of its export earnings, and has appealed to Western donors for more aid money.

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MARTIN MARIETTA

Brazilian austerity package turns public euphoria into fury

President Sarney's government has enjoyed the briefest of political honeymoons since its victory at the polls two weeks ago. Ivo Dawnay reports

FEW political honeymoons can have been shorter. Less than a fortnight after the polling booths closed the popularity of the Brazilian Democratic Movement Party (PMDB) has taken a nosedive.

The kiss that overnight transformed the all-conquering political princes of the PMDB into frogs was delivered by none other than Mr Dilson Funaro, the Finance Minister, in his long-awaited package of adjustments to the country's anti-inflationary Cruzado Plan.

A painful package was inevitable. But few of the party's candidates seemed to realise that the mass enthusiasm that won them a clear congressional majority and all but one of the 23 state governorships was for an economic programme whose adjustment, for electoral reasons, had long been delayed.

When details of the changes were announced the public's mood of euphoria turned to grudging annoyance, then mounting fury.

This week Mr Funaro's offer of resignation in the face of a wave of criticism of his

Funaro: offered to resign

measures was turned down by the President.

The rout at the polls of PMDB's rival coalition partners, the right-wing Liberal Front (PFL), has brought some compensations. Though still present in President Jose Sarney's cabinet, the PFL leadership is now carefully distancing itself from the austerity measures announced last Friday.

Other political power blocks, from the trade unions to business and the bishops, are crying "betrayal" at a fiscal package that has punished every luxury, from beer to cars, with price rises of up to 100 per cent, raised public utility tariffs and once again fiddled the inflation index. But the objections are made for different reasons.

The economists and businessmen are more concerned that the measures do not resolve the underlying problems in Brazil's overheated economy. There is a strong feeling that, despite the severity of the package, it is wrongly targeted, too little and too late.

The government is now facing the same accusations of weakness and vacillation that it suffered before the historic February launch of the price freezing, de-indexing Cruzado measures.

After an uneasy period of reflection, the financial community gave its verdict on the package on Tuesday, wiping 7.5 per cent off share values on the Sao Paulo Stock Exchange and raising interest rates on 60 day certificates of bank deposits to a record annualised rate of 92 per cent.

There have been strong, though possibly alarmist reports in banking circles that November's trade figures may show Brazil in deficit for the first time since 1982, and that the haemorrhaging of precious foreign exchange reserves is continuing.

But the main complaints against the Government from those who best understood its dilemma are not that it lacked courage, but that it failed to apply it in the right ereas. While the indirect tax rises and essential increases in public sector tariffs may relieve the Treasury's deficit, the continned price freeze is expected to do little to reduce demand and nothing to restore crucial investment, they argue.

"Politically mistaken and economically inefficient," was the verdict of Mr Paul Singer, head of the influential think-tank Cebrap. "The doubts on what will result from the package will worsen speculation, preventing a cooling down of demand."

Others — supermarket retailers for example — are left in a quandary over the limited price defreeze. The Government's move to raise the sugar price by 25 per cent may be welcomed by those urging an end to subsidies, but how can foods incorporating sugar continue to have their retail prices frozen?

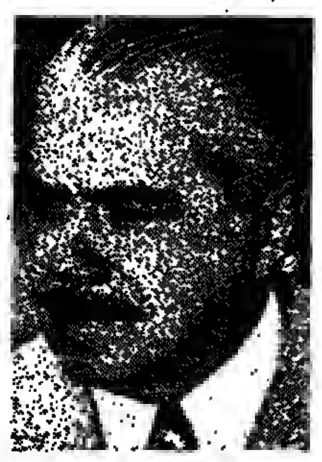
Among government economists in Brasilia, the dispute centres more fundamentally on the exclusion of direct taxes from the package. A group at the central bank is said to have argued vigorously for increased personal taxation for higher income earners or, at the very least, the imposition of a compulsory savings scheme to raise finance for investment.

But in the days before the package was announced President Sarney himself repeatedly ruled out such moves.

Politically, the Government's position is now substantially weakened. It had hoped to suffer the inevitable hostile public reaction in a once-and-for-all blow. But if the men with the calculators are right, further painful adjustments will be needed.

Brasilia's hopes that the plan could be marketed as the sole means of resolving imbalances without hurting the poor have also failed to convince many within the unions and the church — the most formidable champion of the truly dispossessed. Even the illiterate can spot the flaws in a new consumer index that excludes rises in medicine prices, electricity and clothes. This, it is now promised, will be changed yet again.

Similar avoidable blunders have proliferated in the wake of the package, adding to the damaging atmosphere of uncertainty. Widespread reports that the Government would lift a national rent freeze in March have since been explained away as a "misinterpretation" by the press. Wrong figures



Sarney: accusations from all sides

for new taxes on financial transactions have been published in the decrees and later rescinded.

Ironically, at a time when a massive electoral victory by the main government party should have strengthened Brazil'a position in next month's crucial debt talks with foreign banks, it finds the room for manoeuvre limited and its coalition strained.

For the troubled Sarney Govarnment, the often-quoted observation of Britain's former prime minister, Harold Wilson, that "e week is a long time in politics" has never been more painfully true.

Venezuela debt rescue plan runs into trouble

BY JOSEPH MANN IN CARACAS

VENEZUELAN businessmen are worried that political attacks may derail a recently-proposed Government plan covering \$6.9bn (£4.8bn) in private sector foreign debt.

The Venezuelan Government last week unveiled e plan under which it would help privete companies repay a major share of foreign debt considered eligible for official subsidies on exchange rates.

However, members of the ruling Democratic Action Party have expressed strong reservations about the plan in the press.

Earlier this year, official mishandling of another private sector debt scheme — called Fococam — caused a domestic political flap and provoked an angry reaction from international banks.

The scheme presented to bankers in New York City last week offers alternatives for paying interest and principal on certain private sector foreign debts at foreign exchange rates subsidised by the Government.

International banks have been pressing Venezuelan officials since 1983 (when a major devaluation occurred) to approve a programma covering private sector foreign debt, but a change of government in 1984 proposed plan has not yet been heve delayed approval of a proposal acceptable to banks and local debtors. The nawly-proposed plan haes not yet been formally epproved by tha administration.

The Venezuelan Government'a foreign debt will total an estimated \$25.3bn by tha end of 1986, according to an official estimate, down from \$26.5bn et tha end of last year. Venezuela's private sector owes an estimated \$12-13bn to foreign banks and suppliers, but the Government has clasifiad \$6.9bn in so-called "registered" debt as eligible for an official subsidy

Donald Regan: exposed to criticism

Hostage deal denied by France

By Paul Betts in Paris

THE FRENCH Government yesterday denied reports that France had recently supplied arms to Iran and that it was negotiating the exchange of a terrorist imprisoned in France for the French hostages held in the Lebanon.

The denials were made by Mr Denis Baudoul, the spokesman forthe French Prime Minister, Mr Jacques Chirac. Mr Baudoui said that since March 16, when the right wing government came in office no arms had been supplied directly or indirectly to Iran by France.

Reagan strongman who shoots from the lip

BY LIONEL BARBER IN WASHINGTON

MR DONALD T. REGAN, the 67-year-old White House Chief of Staff, was until this week President Reagan's atrong man, a pivotal figure who in two years has amassed power far beyond that of his predecessor, Mr James Baker, now serving as US Treasury Secretary.

But in the wake of the stunning disclosures of secret White House dealings with Iran and tha Contra rebels in Nicaragua, a good number of eccusatory fingers are pointing et Mr Regan.

The former head of Merrill Lynch, the New York brokerage House, has disavowed any knowledge of tha deals. "Does a bank president know whether a bank teller is fiddling around with the books?" he said on Wednesday, "No."

And yet in an interview with Time magazine last week, Mr Regan, ecknowledging his high profile role, boasted ". . . I am up to my elbows in foreign policy because I am one of the few who know the full story."

This capacity to shoot from the lip is likely to leave Mr Regan exposed to fierce criticism in coming weeks. A more serious question, posed both by Democrats and Republicans close to the President, is the competence of the White House staff and the all-powerful role of Mr Regan.

Representative Dick Cheney, the Wyoming Republican and former Chief of Staff in the Ford Administration, reflecting widespread scepticism that only two White House aides were involved in the scandal, said: "You have to say it is e pretty fundamental flaw that would allow a lieutenant colonel on the White House staff to operate in deficiency of the law."

Mr Regan has pointed out that the National Security Council staff, specifically the sacked aide, Lt-Col Oliver North, reported not to him but to Vice-Admiral John Poindexter, the Presideot'a National Security Adviser who resigned this week.

But Mr Regan failed to acknowledge that unlike his predecessors he sat in on many of the personal briefings given by Mr Poindexter to Mr Reagan, in stark contrast to other Chiefs of Staff.

This keenness to be at the centre of power reflects the pyramid command structure drawn up by Mr Regan when he swapped jobs with Mr Baker following the landslide re-election of President Reagan in 1984.

It is markedly different from the uneasy White House troika that Mr Baker formed with Mr Edwin Meese, now the US Attorney General leading a Justice Department inquiry into the Iran affair, and Mr Michael Deaver, the image specialist and close friend of Nancy Reagan.

During the first Reagan Administration, it was probably true that then Mr Reagan had too many figures offering advice eod seeking to establish their own power bases in the White House. In the second Administration, with the imperious Mr Regan at the helm, it is widely believed that there are too few

Desert Two

sources of truly independent edvice.

Some Key players remain such as Mr Patrick Buchanan, the President's speech writer and right-wing columnist, and Mr Tom Dawson, Mr Regan's deputy, and Mr Mitch Daniels, political adviser.

But the fact is that Mr Reagan continues to rely on trusted allies. Mr William Casey, head of the Central Intelligence Agency, is a frequent visitor to the Oval Office. Mr Meese, who over the past two years has expended his energies on anti-pornography drives and controversial interpretations of the constitution, now appears to have moved back centre stage as leader of the Justice Department inquiry.

And then there is Nancy. Tha President's wife's influence is not to be underestimated, particularly when it comes to personnel changes. When Mr Regan admitted what in retrospect looks like a disastrous tactical error last week in pushing forward the President to take "full responsibility" for the arms sales before the Iran-Nicaragua link hed emerged, she must have winced.

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WORLD TRADE NEWS

Soviet Union and India plan joint ventures

BY JOHN ELLIOTT IN NEW DELHI

JOINT VENTURES are likely to be set up for the first time early next year between Soviet industrial enterprises and Indian private-sector companies in an attempt to revive trade between the two countries which has been hit by sharp falls in international oil prices.

Six Indian companies are starting negotiations with Soviet enterprises to manufacture products such as footwear, motor components and road-building equipment in India and possibly in the USSR. They will use technology, equipment and finance from both countries, although the precise forms of the joint ventures have not yet been decided.

"We feel that trade alone between our two countries is not capable of making rapid growth so we want production co-operation in joint ventures and we hope that some concrete contracts will appear in the first quarter of next year," Mr Evgeny Bavrin, Deputy Minister for Foreign Trade, said in an interview here yesterday.

The plan has been discussed during the visit this week to India of Mr Mikhail Gorbachev, the Soviet leader. Yesterday, as expected, an economic agreement signed by the two countries provided India with Roubles 1.5bn (£1.5bn) of Soviet credits. The USSR is to build a 2,400 Mw hydroelectric power station at Tehri in northern India, explore for oil on shore in West Bengal, modernise the Bokaro steel works and expand its coal-mining activities.

But the two countries have been less successful in boosting regular trade. This year Soviet exports to India are expected to drop by about Rupees 4bn

Gorbachev: boosting trade

(£216m) to Rupees 16bn because of falls in the price of oil. India will export an estimated Rupees 21bn to the USSR.

Mr Bavrin said that in 1987 Soviet exports to India were forecast to rise by 21 per cent. This would be achieved by increasing the amount of oil exported annually from 3.5m to 4m tonnes, and adding coking coal and 26 chemical items to the list of goods.

The two governments hope that the joint ventures will produce exports to third countries as well as more bilateral trade. In addition to the manufacturing projects, Indian companies are also negotiating to build three hotels in Russia.

The USSR started setting up joint ventures with foreign companies last year, starting in Eastern Europe.

Japanese choose Indiana

THE JAPANESE companies Fuji Heavy Industries and Isuzu Motors are to build a plant in Lafayette, Indiana, to produce 120,000 vehicles a year beginning in 1989, AP-DJ reports from Tokyo.

The plant will employ about 1,700 workers.

The two companies announced in May this year that they would establish a joint plant costing an estimated $500m.

They then said that Isuzu, Japan's sixth largest vehicle maker, would produce 60,000 light pickup trucks and Trooper utility vehicles a year and Fuji, 60,000 four-wheel-drive Subaru cars.

General Motors of the US owns 39 per cent of Isuzu.

African states in transport accord

By William Dullforce in Geneva

TRANSPORT between three impoverished, landlocked African countries — Burundi, Rwanda and Uganda — and the port of Mombasa in Kenya is expected to become faster and more efficient under an agreement which came into force this month.

The Northern Corridor Transit Agreement between the four countries aims at slashing paper work and Customs procedures on the almost 2,000 km-long rail and road routes between Mombasa and Bujumbura which carry 95 per cent of Uganda's trade, 80 per cent of Rwanda's, and 60 per cent of Burundi's.

It will also release about $50m in grants for road improvement from the European Development Fund (EDF) which the EEC has been holding back until the four signed an agreement to reduce administrative bottlenecks and regulations impeding the movement of goods.

The transit agreement and the establishment of a four-nation co-ordinating authority to supervise it are the fruit of co-operation between the EDF and the Geneva-based UN Conference on Trade and Development (Unctad) which took the lead in the five years of negotiations needed. Zaire has already applied to join the agreement.

Simplification of documents and border controls is expected to improve road carriers' efficiency by between 50 and 75 per cent. The average road transit time from Mombasa to Uganda should be cut from 13 to 11 days, to Rwanda from 24 to 17 days, and to Burundi from 30 to 22 days. A 12-truck convoy has just completed a successful trial run.

About 468,000 tons of goods a year pass through Mombasa to the three countries in the interior. The total value of the trade carried is roughly $1.2bn a year, the most prominent being exports of coffee which approach $500m a year.

Major improvements under the agreement include the introduction of a single road customs transit declaration valid for all four countries which replaces a dozen forms previously required.

Truck drivers will be issued with a common visa, and an international insurance card will shortly be in use.

Japan records surplus in euphemisms

BY IAN RODGER IN TOKYO

THERE are reports which governments are probably unwise to publish. The Japanese government has just produced one called The Action Programme: The State of Implementation.

The report is intended to show that Japan is making great progress in meeting commitments to raise imports made last year in response to foreign outrage at the country's trade surplus.

It celebrates the reduction of tariffs on no fewer than 1,849 items on January 1, 1986 and the removal of tariffs on nine. It also lists several steps taken to open financial markets and to encourage government and private bodies to buy more foreign goods.

However, the results so far will not put much of a dent in Japan's estimated $85bn trade surplus this year.

On the bright side, the 134 major corporations whose leaders' arms were twisted last year by the government increased their imports from $19.6bn in 1984 to $24.8bn last year.

On the other hand, the total of financing arranged for the purchase of foreign manufactured goods in the first nine months was only Y98.3bn, compared with Y183bn in the whole of last year. Similarly, public sector bodies have been cutting their foreign purchases. In the first nine months of the action programme they bought Y27.6bn ($170m) worth compared with more than Y40bn in the whole of 1985.

The report comments: "As for the reason why the procurement of foreign products has not increased as much as expected despite the intense efforts made by the government, further study is needed after obtaining sufficient information, including the results of administration inspection."

The report also tends to be euphemistic about other problems. On the use of standards and certification systems as non-tariff barriers, it says that standards organisations have been thorough and the necessary guidance given.

However, in an apparent reference to recent complaints from the European Commission about a new Japanese standard for ski equipment, it adds, "From the viewpoint of improved market access, it (the action programme promotion committee) has decided to provide further necessary guidance."

On import barriers on agricultural products, the report merely notes that a Gatt panel was set up last month to study them.

Kola mines attract Nordic groups

Sara Webb in Stockholm reports on the development of a mineral-rich Soviet region

SCANDINAVIAN companies are focusing their attention on a strategic corner of the Soviet Union in the search for valuable minerals.

The Kola peninsula, next to Finland and Norway, is home for two-thirds of the Soviet submarine-based strategic missiles and about half the attack submarine fleet. The area also contains rich deposits of nickel, zinc, copper and apatite. In the waste ore left over from the apatite mining 700 minerals can be found.

Swedish mining, engineering and chemicals companies are now considering forming a consortium so as to improve their chances of winning contracts to develop the area. The project would involve the development of several apatite mines and the extraction of various minerals from the leftover waste.

The Swedish Government has commissioned Boliden (the metals, chemicals, and mining group) to carry out a preliminary study of the area.

Gosplan, the Soviet state planning commission, has cited development of the Kola peninsula as an important future project, and Swedish, Finnish, and Norwegian companies are competing fiercely in the hope of offering technology and expertise.

Several Finnish mining and and chemicals companies including Outokumpu, Kemira, Partek, Lohja, and Rautaruukki, and representatives of the Soviet ministries of Ferrous Metallurgy, non-Ferrous Metallurgy, Fertilisers Industry, and Construction Materials have already formed a joint Finnish-Soviet working group which is looking at areas of collaboration.

The group is due to produce its assessment of the Kola peninsula development soon.

The idea of forming a Swedish consortium follows a recent trade delegation visit to the Kola peninsula led by Mr Carl Johan Aberg, State Secretary, and including representatives of the Swedish companies Asea, Atlas Copco, Berol, Boliden, WP Contech, Kenebel, Kiruna Truck, and Sala International.

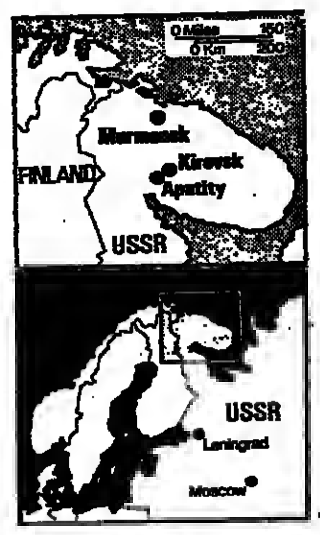
At the apatite mines around Apatity and Kirovsk, about 100 miles south of Murmansk, the Russians mine between 50m and 55m tons of ore a year, which yields 18m to 20m tons of high-grade apatite.

The production methods are inefficient and the Russians want to increase ore production to more than 60m tons a year, using more advanced technology.

Apatite is used in the production of fertilisers, particularly superphosphates. The total apatite formation around Kirovsk is thought to exceed 2bn tons, more than twice the combined apatite resources in the West.

The mines are open cast, but the Russians plan to start mining underground and have already asked WP Contech, the consultancy arm of Boliden, for advice on the rock structure so that the mines do not cave in once underground work begins.

Other Swedish companies want to supply mining equipment such as slurry pumps and



drills. Sala International had its pumps on trial in the mineral dressing plant "Anoff 2" but no sales resulted.

Atlas Copco sees a niche for its compressors. "At the moment, they use impact pneumatic drilling equipment of Soviet manufacture—we think that our machines are more efficient," said a spokesman.

The Soviet Union has already bought Atlas Copco drilling rigs worth about SKr 100m (£10m) for a copper mine in Siberia. Kiruna Truck wants to supply vehicles for the transport of ore, although the Russians use Japanese and US trucks as well as some locally manufactured ones at the moment.

The second main area of interest in the Kola peninsula involves the extraction of various minerals from the waste ore left over from apatite mining. There are about 50m tons of waste ore containing titanium, phosphates, rare earth elements, and nepheline which is used in the ceramics industry and the production of aluminium.

"The Russians just don't have the technical skills to develop this waste," according to at least one company spokesman. Nor are they very forthcoming with the basic information concerning mineral content and possible production levels, which has left companies uncertain about the economic feasibility of the extraction project.

The Finnish minerals and construction materials company Partek is interested both in providing the technology for an extraction project and in using the end products.

On the Norwegian side, the metals group Elkem wants to supply smelting technology and expertise for ferro-alloys and aluminium projects, while Norsk Hydro wants to use titanium for its light metals business and phosphates for its fertilisers business.

How the companies eventually chosen would be paid is another unsolved problem. All the signs so far have been that the Russians want to pay in end-products, chiefly apatite which is of no direct use to most of the companies concerned, except for Boliden.

Boliden uses apatite to produce phosphoric acid at its plant in Helsingborg, southern Sweden. The particular attraction of Russian apatite is that it is free of fluorine and chlorine and so can be used in the production of cattle feed.

Breda wins first contract for new bus

By John Wyles in Rome

AN ITALIAN company has won a $140m contract to supply 236 so-called "dual" buses to the US city of Seattle.

Aviofer-Breda, a subsidiary of Efim, the Italian state holding company, won the contract against competition from Man and Neoplan of West Germany. It is the first that Breda has won for its new bus design.

The vehicle is equipped with both diesel and electrically driven engines, permitting great flexibility. It is particularly suitable for pollution-sensitive areas or confined spaces such as tunnels.

The president of Breda, Mr Giuseppe Capuano, said that the sale underlined his company's lead in the construction of advanced transport systems.

He said General Motors would be supplying the diesel engines for the vehicles, and Westinghouse, also of the US, the electric motors.

Breda, which is the second largest bus and railway coach builder, said yesterday that negotiations are under way on another potentially large order, this time outside the US.

● The Dutch army has ordered 52 heavy trucks from the Scania importer in Holland, Beers' Zonen. This is the Swedish group's first sale to the Dutch armed forces.

The trucks will be built by Scania Nederland, which was formed in 1964 and has so far assembled more than 90,000 vehicles for European Community markets.

The factory's output this year will be about 8,000, of which 75 per cent will be sold outside Holland.

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UK NEWS

James Buxton on the role of the government timber industry body

Forestry chief fends off critics

THE Forestry Commission is rather short of friends at the moment. It is under unrelenting fire from the environmental lobby. There have been some sceptical remarks about forestry policy and the tax concessions that go with it from Mr William Waldegrave, Environment Minister. Even the Royal Family has its doubters: not so long ago, at a private dinner party in Scotland, the Queen Mother proposed the toast: "Down with the Forestry Commission."

The man who has to answer for the government body, which regulates Britain's forestry industry and runs a large timber enterprise in its own right, is Mr Gwyn Francis, a large, slow-talking Welshman, who took over this month as director-general. Mr Francis, 55, takes a long-term view of forestry and its critics and is not promising any changes in the Forestry Commission's strategy.

"The great anxiety is to try to get people to think about forestry as a long-term activity," he says. "The views of people change faster than trees grow."

Since 1980 the state of the timber industry and the role of the Forestry Commission have changed sharply. At the Government's direction the Forestry Commission has ceased to plant the majority of trees in Britain. Instead its principal role is to regulate and assist planting by private sector groups and individuals. It is progressively selling off its forests to the private sector—since 1981 its property sales have totalled £83m.

As forests planted about 50 years ago come to maturity, the Forestry Commission is stepping up harvesting. In 1985-86 its timber sales exceeded 3m cu metres for the first time in its history. Their value rose 20 per cent over the previous financial year to £64.1m. All this helps to feed a timber processing industry which has more than replaced the capacity lost in the closures of big processing plants around the turn of the decade, including the loss-making Wiggins Teape mill at Fort William.

Last year saw the opening of a big newsprint production mill at Shotton, north Wales, and Britain's capacity for making wood-based panels continues to expand. A Finnish company should soon decide whether to set up a £200m integrated pulp and paper mill in Scotland.

Terry Kirk

Cutting down trees at a Forestry Commission's station.

As both Forestry Commission and private woodland owners restock forests that are felled (11,600 hectares were replanted in the last financial year), planting is going ahead vigorously, with 23,300 hectares planted last year, about 82 per cent of it by the private sector. The Forestry Commission itself has a total of 889,000 hectares of productive woodland, about half of which is in Scotland.

"The forestry industry is in a favourable situation," says Mr Francis. "It demonstrates that we are growing a product that is valued in the market place." Last year British forests accounted for 18 per cent of total consumption of sawn softwood timber and 12 per cent of total wood consumption.

Yet a great many people in Britain see the situation as anything but favourable. For bodies such as the Council for the Protection of Rural England, the Ramblers' Association, and the World Wildlife Fund, the onward march of the rows of sitka spruces and other conifers, especially across the once bare hills of Scotland where most new planting takes place, is causing damage to the landscape and to wildlife in pursuit of questionable economic objectives.

This assault on the environment, as they see it, is sustained by the taxpayer in the form of the annual £51m grant to the Forestry Commission and in tax concessions to wealthy private investors.

The objectors' attention is at present focused on the big planting going on in the "flow" country, a wild area of moorland, bog and lochans in Caithness and Sutherland in the far north of Scotland. Environmentalists consider it to be the last real wilderness in Britain. Big groups such as Fountain Forestry are planting there on a large scale on behalf of investors such as television personalities and professional snooker players.

At the Forestry Commission headquarters in Edinburgh Mr Francis, who has been in forestry all his life, deals gently but unflinchingly with these arguments. Forestry, he says, is creating an asset on land which previously had little value. "It is wrong to call it a subsidy—it is really an investment, and not so different from government incentives to industry such as enterprise zones," he says.

Of the commission's own grant of £51m last year, about £16m goes to fund its work as as the Forestry Authority—controlling private sector plantations, approving grants and carrying out research. The remaining £35m goes on sustaining the forestry enterprise. This was partly offset last year by £17m worth of asset sales.

Private woodland investors receive a planting grant ranging upwards from about £100 an acre and full tax relief on the income invested in forestry. "There are people who have high incomes over a short time in their lives," Mr Francis says. "Everybody takes legitimate measures to minimise their tax bill. The arrangements reflect the long time-scale of forestry with an initial period of high investment and a long period before there is any income. You have to recognise that in some form of tax system." Tree planting, the commission points out, is subsidised throughout the EEC.

"There is no doubt that it is a useful source of funds to rural areas that would not otherwise be there. At least the money is in this country and in the rural areas," he says.

What would happen if the incentives were removed? "One can only speculate. The fear would be that the forests would be less well managed. The tax concessions also allow continuity of management in spite of changes of ownership. The tax system does not influence where forestry takes place or the type of forestry. What influences that is the availability, type and quality of land."

As for the "flow" country, Mr Francis says, out of 200,000 hectares, only about 17 per cent is either planted or agreed for planting. The commission, he says, lays great importance on consultation procedures aimed at reconciling the interests of foresters, farmers, local authorities and other groups.

The commission's critics usually acknowledge that it now tries much harder to soften the impact of new plantations by varying the type of tree planted, avoiding straight edges and monotonous plantations, and making greater efforts to look after wildlife. Now says Mr Francis, "with forests planted in the 1930s coming to maturity we have great opportunities to landscape as they come up for felling and replanting so that you will get much greater diversity of age and of species, and leaving vistas."

Mr George Holmes, Mr Francis's retired predecessor as director-general, won the conservation lobby's approval by instituting a policy to encourage the rehabilitation of woods of broadleaved trees by offering landowners higher grants. The scheme has already proved popular, with 1,600 applications last year for 11,000 hectares. Does Mr Francis plan an initiative likely to assuage the critics?

"No," he says. "I think all the initiatives are in place: first of all the broadleaf policy, and secondly the care which we take in considering grant applications and the extent to which we consult to ensure that they are environmentally acceptable."

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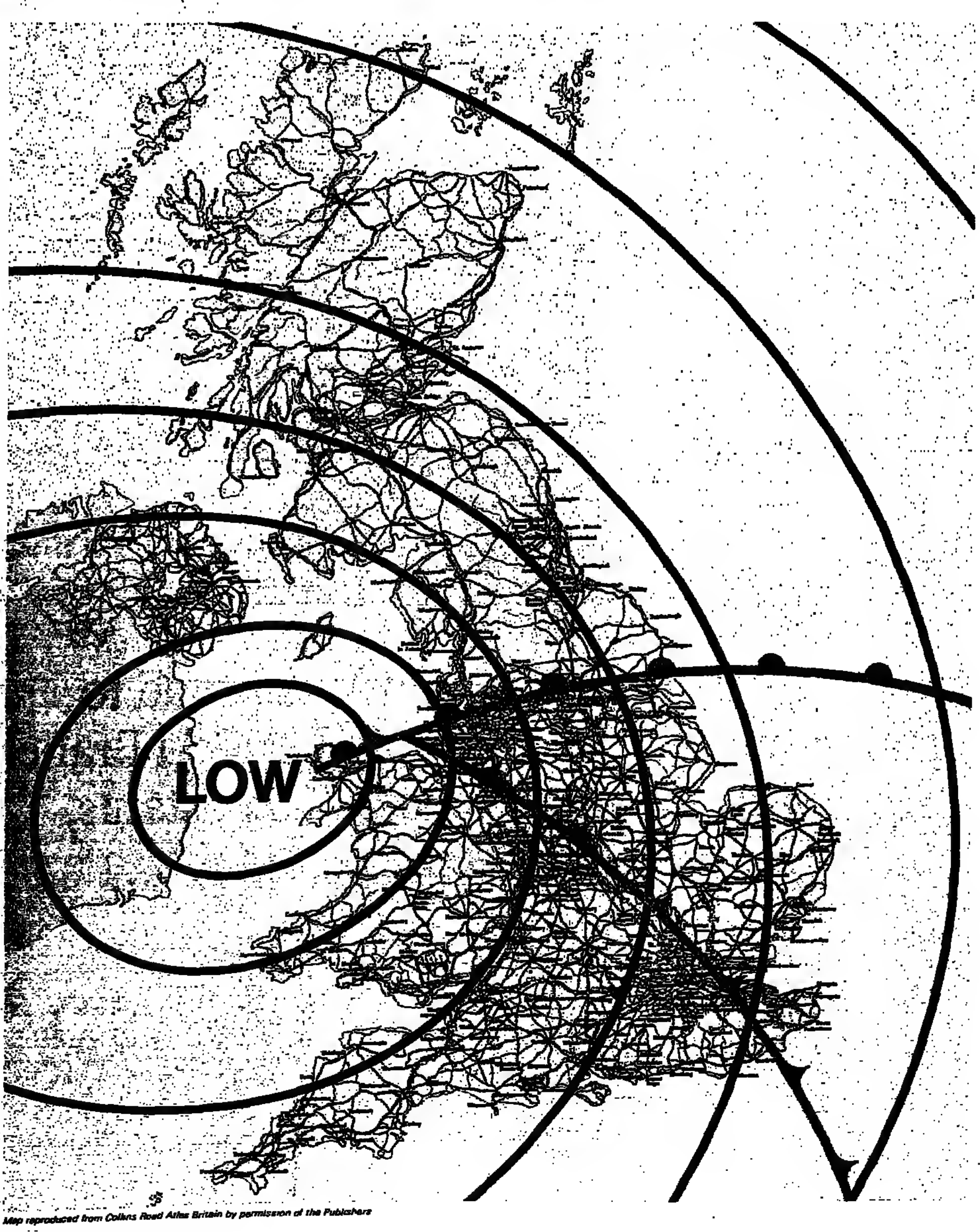

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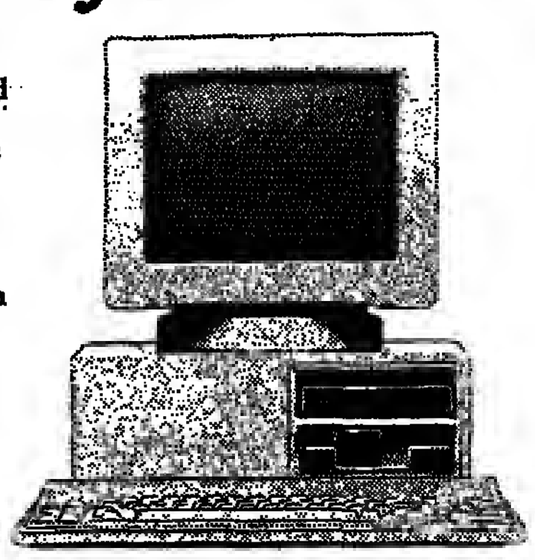

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UK NEWS

Cedric Sandford reports on the costs of complying with income and capital gains taxes

Taxing task of paying the Inland Revenue

IT COSTS more than £2bn to operate income tax and capital gains tax in the UK, and the costs of complying fall disproportionately on the self-employed with low incomes.

These are two of the main findings from a study undertaken at the University of Bath's Centre for Fiscal Studies, as part of a long-term programme to measure the costs of operating the UK tax system.

Several costs are associated with paying tax. Besides the payment itself there mey be distortion costs, such as disincentives, *administrative costs* (public sector collection costs) and compliance costs—the expenses which private individuals and third parties, mainly businesses, incur in meeting the requirements of the tax system.

Administrative and compliance costs make up the running or operating costs of a tax or tax system. Administrative costs are officially published. Compliance costs relating to income can only be estimated as the outcome of a research project.

There are three types of compliance costs relating to income tax and CGT. They are money costs, mainly fees to professional advisers for undertaking tax work; time costs, such as the hours which an individual may spend completing his or her tax return, filing the necessary documents and writing or talking to the tax authorities or an adviser; and psychological costs. This includes the anxiety of older people (especially widows unused to dealing with tax returns) in grappling with a tax they find largely incomprehensible.

'Psychological costs are often important, but it is not possible to measure them realistically'

Psychological costs are often important, but it is not possible to measure them realistically.

The tax survey was undertaken with the help of Inland Revenue, though the research team was independent. Inland Revenue's main contribution was to send questionnaires to e sample of taxpayers and to furnish additional data about the sample's income, ensuring that the taxpayers remained anonymous.

The sample was stratified to include a high fraction from groups whose compliance costs were known to be high, notably all Schedule D taxpayers and the Schedule E taxpayers with high incomes. More than 4,000 taxpayers were sent postal surveys and 1,776 usable replies were received, a high response rate.

The questionnaire sought information on the marital and employment status of respondents; details of the nature and source of their income; whether respondents had particular problems with income tax; whether they employed a tax adviser, the adviser's profession, the fees paid for tax advice; the reasons for employing (or not employing) an adviser; *and* the time spent on tax work. All the data related to the tax year 1983-84.

When the data was grossed to *the total number of income* tax payers, it appeared that just over 10 per cent employed tax advisers and of these 10 per cent three-quarters were on Schedule D.

The advisers were overwhelmingly accountants: more than 94 per cent of those employing advisers employed accountants only. The banks, the next most numerous source, were e very long way behind et just over 2 per cent. The remainder employed some combination of professional advisers.

By far the most common reason for Schedule E taxpayers to employ an adviser was "too many sources of income for me to cope easily."

With Schedule D payers, almost equal weight was given to "I feel happier knowing my returns are accurate"; "I want to be sure of getting all the *allowances* I *am entitled to*"; and "I wish to take every opportunity the law allows to cut my tax bill". This shows that some of the costs lie within the taxpayers' discretion.

Another consideration which led some Schedule D payers to employ an adviser was the integration of personal tax work with business accounts, whereby the separation of costs is often difficult.

It was estimated that total fees paid to advisers in respect of income tax and capital gains tax in 1983-84 was just under £600m (see Table 1) of which £28m represented special rather than regular costs, such as the costs of legal representation.

In 1983-84 taxpayers spent an estimated 93m hours on income tax and capital gains tax, equivalent to some 45,000 man-years. On everage, income tax took up some three to four hours per tax unit (man and wife *normally counting as one unit*). However, the distribution of time was most uneven. Of Schdule E payers, nearly two-thirds spent less than one hour on tax work and only 0.5 per cent spent over 20 hours.

Among Schedule D payers, just over a quarter spent less than an hour on tax work (many are no longer active in a business) while almost 20 per cent spent over 20 hours and more than 4 per cent over 100 hours. Nor did heving an adviser relieve the taxpayer of all the chores. The 10 per cent with advisers spent more hours on tax work (52.4m) than the 90 per cent without (40.8m).

How does one value a taxpayer's time? In principle it could be zero, when the individual can fit tax requirements into working hours without detriment, as in the case of a small retailer who does tax work when no one is in the shop. It could be a multiple of hourly earnings where a taxpayer, having passed all the tax *work he can to his* accountant, does the necessary minimum as a highly uncongenial task in time in which he could have worked overtime, but which he would have preferred as leisure.

The figures in Table 1 are arbitrary *but not* unreasonable. They value taxpayers' time at his/her average hourly rate of earned income, estimated by dividing annual earned income by 2,000 (50 weeks x 40 hours per week). On this basis the value of taxpayers' time was just under £450m.

Table 1
ESTIMATED COMPLIANCE COSTS OF INCOME TAX AND CGT—1983-84

	£m	% of total costs
Fees to tax advisers	593	55.6
Time costs (93m hours)	448*	42.1
Miscellaneous costs	25	2.3
	1,066	100.0

* Value at estimated hourly earnings rate.

Table 2
COMPARISON OF ESTIMATED AVERAGE COMPLIANCE COSTS OF SCHEDULE D AND SCHEDULE E TAXPAYERS

	Schedule D		Schedule E	
Income	£ mean compliance cost	As % of income	£ mean compliance cost	As % of income
£1-7,499	163	4.5	6	0.1
£7,500-14,999	268	2.5	56	0.5
£15,000-29,999	515	2.4	110	0.5
£30,000-49,999	458	1.3	444	1.1
£50,000 and over	971	1.2	787	0.9

Table 2 shows the average costs of compliance for different income groups whose principal source of income is within the two main schedules. The Schedule D column shows the pattern which is characteristic of compliance costs in relation to business taxes. The larger units (whether measured in business turnover, as with value added tax, or incomes, as with income tax) have higher compliance costs in absolute terms, but the burden of compliance is proportionately heavier on the smaller units.

This is not true of Schedule E payers. Under a cumulative PAYE system in which most wage earners do not receive tax returns annually and where the relationship between Inland Revenue and employer rather than Inland Revenue and taxpayer, the bulk of low wage earners have virtually no compliance costs.

The total compliance costs (including discretionary costs) of UK personal income tax and capital gains tax were thus estimated at £1,066m in 1983-84 (3.3 per cent of income tax yield). The administrative costs of these two taxes were £691m *(Inland Revenue 127th Report)*, giving a combined figure of £1,757m. However, this figure excludes the costs of PAYE to employers, which could have been a further £400m. (An earlier study at the Bath Centre for Fiscal Studies had estimated employers' gross costs at £449m, in 1981-82, for the collection of income tax and national insurance contributions, which employers had been unable to separate).

Thus, it is clear that the total costs of running income tax and capital gains tax must be put at well over £2bn for 1983-84, which for a revenue yield of £32bn is a cost/yield ratio of upwards of 6¼ per cent.

Little evidence is available to make comparisons with other countries, but a recent study in the US estimated the compliance costs of state and federal income tax in Minnesota at between 5 per cent and 7 per cent of tax revenue excluding the costs to employers of withholding tax. (J. Slemrod and N. Sorum, Compliance Costs of the US Individual Income Tax System, National Tax Journal, Vol 37, No 4.)

This figure is appreciably higher than the UK compliance cost of 3.3 per cent. However, the ratio is affected by the lower per capita yield of the US income tax. Moreover, US administrative costs are lower than those of the UK. Because of the US system of self-assessment we should expect administrative costs to be lower and compliance costs higher than in the UK, and comparisons are therefore difficult. None the less, so far as it goes, the comparison suggests that the compliance costs of income tax in the UK are not unreasonably high.

'More than 94 per cent of those employing advisers used accountants. Banks were a long way behind'

Cedric Sandford is Professor of Political Economy at the University of Bath. The research was carried out in conjunction with Michael Godwin and Peter Hardwick with the aid of a grant from the Economic and Social Research Council.

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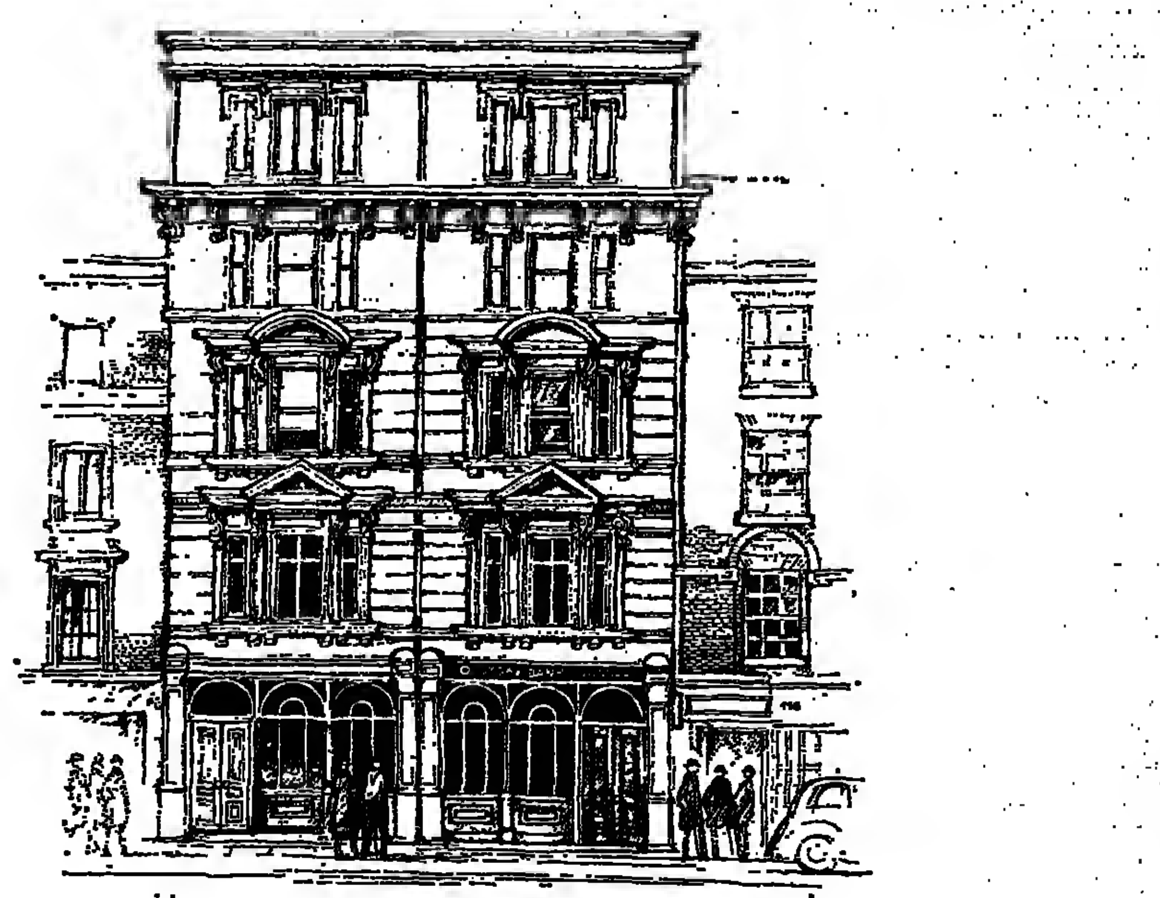

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Europa television rescue bid fails

ATTEMPTS TO rescue Europa, Europe's only public service broadcasting satellite channel, failed yesterday and staff were told broadcasting would stop et 11pm and they would no longer be needed, Raymond Snoddy writes.

The channel has been broadcasting a mixture of sport, news and general programmes to cable television networks across Europe for more than a year. It has also been carried on the Portuguese second channel.

Europa has, however, had little success in selling advertising time and the losses have been mounting. The British sports sponsorship organisation, West Nally, had put forward a plan to restructure the channel which would have involved them taking a significant slice of the equity and a managerial involvement.

The aim was to give the channel which is estimated to be available to about 5m homes a more commercial edge. Talks appeared to be going well and the plan had the support of the shareholders, national broadcasters from Holland, Ireland, Italy, West Germany and Portugal.

At the last minute the Dutch broadcasting organisation demanded that by midnight last night it should be paid or guaranteed Fl 12m (£3.7m) it claims it is owed. West Nally refused to agree.

□ BRITISH RAIL served a writ on News International (NI) claiming damages for loss of revenue arising from the company's switch to distributing its four titles by road 10 months' ago.

Before the switch, business from NI accounted for about one third of BR's £30m annual newspaper distribution income. The company transferred production of its main national titles from central London to Wapping, east London, in January this year and since then has used road transport for its distribution.

BR would not comment on the sum of damages it is seeking but it is believed to be around £36m. It is likely to argue that NI terminated a rolling contract unilaterally.

□ HILL SAMUEL has toppled Morgan Grenfell as the City of London merchant bank with the longest list of corporate clients, according to the 1987 edition of Crawford's Directory of City Connections. Hill Samuel now has 147 clients compared with 116 last year, which placed it fourth in the list behind Morgan Grenfell, S. G. Warburg and Kleinwort Benson. The size of Morgan Grenfell's clientele remained at 131 and it slipped into third position. Kleinwort, whose clientele increased from 128.5 to 145.5, moved into second position. S. G. Warburg showed a net loss of seven clients to 122 and fell back to fourth.

□ BZW, the investment banking arm of Barclays Bank and one of the largest City financial conglomerates, has decided against making a market in the new British Gas shares. Its name is the most conspicuous absentee from the list of market-makers which registered with the stock exchange. Sir Martin Jacomb, BZW's chairman, said his company had been forced to take the decision because of the heavy volume of work it expected in its role as co-ordinator of the gas issue for the south-east region of England, where demand for shares is expected to be heaviest.

□ COCAINE seizures rose by 63 per cent to a record 74 kg (163 lb) in 1985–86 while those for heroin and cannabis remained static, according to the Customs and Excise Commissioners' annual report.

There were 4,182 seizures of illegal drugs, worth an estimated £104m on the streets.

Whitehall demands raise spending target doubts

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

THE TREASURY is facing renewed pressure from Whitehall spending departments for extra money next year despite its decision earlier this month to abandon its previous spending target and to give departments an additional £4.7bn.

The new bids, which are said to have been submitted by several smaller ministries, have caused concern among Treasury officials that the Government will find it difficult to meet even its revised spending target of £148.6bn for 1987-88.

That total includes a contingency reserve of £3.5bn for unforeseen outlays, but with spending departments already competing for a share five months ahead of the start of the financial year there are doubts over whether it will prove sufficient.

Further pressure is expected to come from a Civil Service pay deal which government negotiators anticipate will result in increases significantly above the inflation rate and from an expansion in the next budget of the Employment Department's special job schemes.

Part of the problem for the Treasury is that most of the additional cash allocated for next year has been concentrated on a handful of large ministries, particularly those with large local authority responsibilities and demand-led programmes.

The increases, for the Department of Health and Social Security, the Department of Education, the Home Office and the Environment Department, were ceded by the Treasury at the very end of the autumn round of public spending negotiations.

Nigel Lawson: relying on buoyant tax revenues

Before that most of the smaller departments settled with Mr John MacGregor, the Chief Secretary to the Treasury, on the assumption that there could be no increase in the previous overall spending target of £143.9bn.

As a result several departments, including agriculture, trade and industry, the Scottish Office, employment and arts and libraries, face e cut or a freeze in spending next year.

Suspicion in Whitehall that the Treasury will eventually bow to extra spending demands has been heightened by the reported attitude of Mr MacGregor in the last stage of the bargaining before the Autumn Statement. The Chief Secretary is said to have been extremely reluctant to take e firm stand against spending ministers in the so-called Star Chamber negotiations.

Despite the insistence of Mr Nigel Lawson, the Chancellor, of the Exchequer, that the additional spending provision involved only a "minor change in presentation", officials on both sides of the spending negotiations say that it set an important precedent – particularly in the run-up to e general election.

Senior Treasury officials are said to have urged Mr Lawson to take a different public stance by reaffirming that despite increases next year his medium-term aim remained to hold spending constant in real terms.

There is also widespread agreement in Whitehall that the provisional plans for 1988-89, which foresee a freeze in total spending, are unrealistic given the upward momentum generated by increases this year and next.

More immediately, Lord Young, the Employment Secretary, is believed to be already planning an expansion of special employment measures to be announced in the next budget.

Although the pilot scheme is still at a very early stage, Lord Young is said to think that nationwide implementation of the Job Training Programme, which provides the unemployed with a mixture of training and work experience, could have a major impact on the official jobless total. Together with an expansion of the Community Programme the cost could be several hundred million pounds.

Ironically for the Treasury the fact the contingency reserve for next year was set at £3.5bn rather than the £2bn to £2.5bn which many in Whitehall had anticipated has encouraged spending departments to put in early bids for extra cash.

Teachers' pay deal 'need not be imposed'

By David Brindle and Michael Cassell

ATTEMPTS to reach a negotiated settlement of the teachers' pay dispute in England and Wales could continue into the "early part" of next year, Mr Kenneth Baker, Education Secretary, said last night.

He said there was no reason why negotiations could not go on during the progress through parliament of the bill, outlined yesterday and to be introduced in the House of Commons today, which would include enabling powers for him to impose a settlement. He hopes to have it on the statute book by mid-February.

Mr Baker was speaking after he had made it clear in the Commons yesterday that the Government found quite unacceptable the teachers' pay and conditions agreement signed a week ago by the Labour-led local authority employers and four of the six teaching unions.

The main objection, he said, was to the lack of sufficient additional pay allowances for promoted and specialist teachers. He told MPs: "This is a huge gap and a fundamental point of principle."

While emphasising the gulf between the Government and the employers and unions on this issue and on the cost of the agreement, Mr Baker was at pains to stress that his door remained open for talks to continue to try to reach an accommodation.

He said there had been "useful progress" in areas such as a tighter employment contract for teachers, working time and performance appraisal. He remained willing to discuss unresolved issues with employers and unions, but he was not willing to allow "this highly unsatisfactory situation" to continue indefinitely.

Thus, the minister confirmed, he would today lay before the house a bill to replace the present statutory Burnham pay negotiating machinery with an interim advisory committee and to give the Secretary of State powers to apply a settlement by statutory order.

The proposed interim advisory committee is itself an issue of dispute between the Government and the employers and unions. Mr Doug McAvoy, deputy general secretary of the National Union of Teachers, last night called the scheme "outrageous and hostile."

However, Mr Baker said last night that the committee, comprising independent government appointees, would be set up for only a two-year term and that the negotiating roles of both employers and unions could be a matter for discussion.

The minister wrote yesterday to Mr John Pearman, the employers' leader, offering to meet him next week. Mr Malcolm Rifkind, Scottish Secretary, has similarly offered talks with Teachers' leaders and employers in Scotland over the parallel pay dispute north of the border, where a one-day strike is due next Thursday.

In each dispute, the Government has offered a phased 16.4 per cent pay rise over 15 months – terms which the employers in England and Wales have repackaged in their agreement which, Mr Baker says, is £85m too costly.

Stock Exchange acts to prevent inaccurate share prices recurring

BY ALAN CANE

THE STOCK Exchange is taking rapid action to prevent a recurrence of the problems which this week resulted in inaccurate share prices displayed on the Seaq electronic market information system.

It includes stiffer conditions for submission of prices to Seaq and a change in the time for entry of closing prices.

Market makers, however, are complaining that there are fundamental flaws in the exchange's contingency procedures which should be put right first.

The problem came to light on Wednesday when some 1,500 incorrect closing prices were put in by Greenwell Montagne, the broking house. Greenwell had mistakenly, and unwittingly, put in an old set of prices through a processing error in its own computer system.

Yesterday, there was similar confusion because of wrong prices put in by the major market maker Barclays de Zoete Wedd.

According to Mr Matt Devereaux, head of management services at BZW, its communications lines to the exchange failed while it was trying to close down its own in-house computer system.

Problems with the connections between its own computers and its member firms' computers have been a recurring problem for the exchange.

BZW was forced to use a system provided by the Stock Exchange, the Market Maker Level III service, to complete the closedown operation. To do so, it had to reopen the electronic link to Seaq, automatically sending out-of-date prices to the exchange.

Mr Devereaux says that much simpler fall-back procedures have to be instituted if the problem is not to recur.

Mr George Hayter, head of information services at the Stock Exchange said changes were being made to the Seaq software so that market makers could not put in prices wildly different from their previous quotes. They would have to make the changes in incremental stages: "It will be inconvenient, but these problems have shown it is necessary" he said yesterday.

Three N.Sea fields shut down

BY LUCY KELLAWAY

PRODUCTION at three oilfields in the North Sea was shut down yesterday morning, after a large oil slick, measuring 5 miles by 2 miles, was spotted about 150 miles North East of Peterhead, Scotland.

The oil is thought to be leaking from the Claymore pipeline which links into the main line from the Piper oilfield to the Flotta terminal.

Occidental International Oil, which operates both the Piper and Claymore fields, said that a diving support vessel was due to arrive by midnight last night to attempt to discover the cause of the problem.

Production at the nearby Tartan field has also been shut down. Together the three fields produce 300,000 barrels a day, more than 10 per cent of total UK production.

Mr Alan Sinclair of Wood Mackenzie, the Edinburgh-based stockbrokers, said yesterday that if the pipeline were fractured, production might need to be halted for several weeks. Occidental would not comment yesterday on the likely reason for the spillage.

International interest may raise price of Safeway supermarkets

BY CHRISTOPHER PARKES, CONSUMER INDUSTRIES EDITOR

THE City of London yesterday hung a provisional £600m-£700m price tag on the 126 stores which make up the Safeway supermarket chain.

Although its US owner has said only that it is "willing to consider" the sale of its UK operations; there is little doubt that the much-coveted quality food business will shortly change hands.

There is also near certainty that Mr James Gulliver's Argyll group will be among the first to make an offer. The rationale for a merger between his Presto chain and Safeway is unusually clear-cut.

● The geographical fit is almost perfect. Most of Safeway's stores are sited in well-off areas in and around London, while Presto's strength is in the north-east of England and Scotland.

● The groups are also complementary in operational terms. Where Safeway is week, in buying power, for example, Presto's base of more than 1,000 stores has given it considerable muscle. Safeway, on the other hand, has precious expertise in high-margin fresh foods, where Presto is still learning the ropes.

● However, perhaps the most valuable asset the US company can offer is its name, which has cachet and goodwill enough to match Sainsbury. By "reversing" Presto into Safeway and adopting the name and style in most of its outlets, Mr Gulliver could almost at a stroke move his supermarketing enterprise up among the elite and cast off Presto's somewhat downmarket image.

● A deal would also promote Argyll to the first division in supermarketing. Adding Safeway's estimated 3.5 per cent, would put the combination in a position where it could better challenge Sainsbury's 18 per cent share, Tesco's 14 per cent and Dee Corporation's 13 per cent.

However, further polarisation and concentration of retailing power might attract the attention of the Office of Fair Trading and present obstacles to any deal.

The OFT is believed to have taken a close interest earlier this year in Dee's bid for Fine Fare. The office was apparently persuaded not to interfere by the argument that the trade would be healthier with more companies sitting at the "top table." Otherwise, Sainsbury and Tesco threatened to become overpowerful.

However, the OFT is not the only potential obstacle in Argyll's way. Any of the other major supermarket chains might be interested. Tesco has already looked, although Sainsbury insists it has enough goodwill of its own without having to pay for someone else's, and Dee is still struggling to digest its other recent buys.

Woolworth Holdings, however, the retailing group which incorporates B&Q do-it-yourself, Comet electrical and its own chain of stores, is known to be looking for further interests.

Others could be following the scent. The Safeway proposition offers what could be the last chance for an "outsider" to pick up a ready-made, thriving supermarket business in the UK. As a result, there could well be considerable interest from overseas. British food retailing offers considerably better margins than in the US and some parts of Europe.

The Ahold group, for example, has pretty well saturated its home market in the Netherlands with a chain of approaching 1,000 stores. In West Germany, where bulk-buying power is one of retailing's main strengths, groups like Tengelmann might see Safeway UK as an ideal route across EEC frontiers.

Should an auction develop, the end price could far exceed the provisional tag of up to £700m. Top-ranking supermarket chains seldom come up for sale, and premiums can be high.

It is believed, for example, that discussions between Dee and Associated British Foods on the sale of Fine Fare started at around £450m before the bargain was struck at £686m last June.

Then again, an auction is not the only possibility. Safeway could be floated on the London Stock Exchange, although City opinion suggests an open-market sale would yield far more cash for the hard-pressed US parent.

A leveraged management buy-out is another possibility, although it is widely considered impracticable. "You usually see this in play where a business is not cash-hungry," one observer said. It would be "a nonsense" to use this technique on Safeway on the basis of getting cash out to cover borrowings.

Mr Terence Spratt, chairman and managing director of Safeway UK was not available to comment.

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Brierley names motor dealer as main vehicle

BY TERRY POVEY

MR Ron Brierley is to become chairman of Tozer Kemsley & Millbourn in a move that is expected to lead to the UK's largest motor dealer being transformed into an investment holding company.

Brierley Investments, New Zealand's largest company, announced this yesterday along with a statement that TKM, in which it has had a controlling stake since July 1985, will be its principal UK operating subsidiary.

Mr Brierley has made investments through various channels in some 60 UK listed companies – the declared portion of which has cost £270m – all of which may now be transferred over to TKM.

The key holdings of the Brierley group are in Equity Law & Life Assurance, Horizon Travel, Molins, Ocean Transport & Trading and Ultramar. Last Friday a £258m Brierley bid for OT&T failed, leaving the group with a 30 per cent stake.

The Brierley Investments announcement ends confusion about TKM's role within the group. According to Mr Reg Heath, TKM's chief executive and the only board level survivor in the motor group from before Mr Brierley took control, "a public statement was felt necessary following the announcement of plans to list Brierley Investments in the UK."

TKM also announced yesterday that Mr Michael Davies, chairman since 1985 and a board member since 1982, was retiring. Mr J. Sieff and Mr R. Crawford, non-executive directors, are also to retire from the year-end.

STC wins $350m contract

BY TERRY DODSWORTH AND DAVID THOMAS

STC, the UK electronics company, has beaten US, Japanese and French companies to win a $350m (£244.7m) contract to supply the first private optical fibre transatlantic telecommunications cable.

The 4,350 mile (7,000 km) cable, which will be ready by June 1989, will bring competition to transatlantic telephone services for the first time. It will be owned by Cable and Wireless, the UK international telecommunications group, and Tel Optik, the US investment group.

Nynex, the large New York telephone operating company, is seeking legal permission to buy the Tel Optik stake. If it succeeds, the cable is almost certain to carry large amounts of transatlantic telecommunications traffic, because Nynex at present accounts for 40 per cent of calls from the US.

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UK NEWS

Australian claim to offer cheapest coal from Ulster

BY MAURICE SAMUELSON

MEEKATHARRA MINERALS, an Australian mining company, claimed yesterday that it could provide the cheapest lignite from Northern Ireland for a new £500m power station which the Government would like to be built and operated there by the private sector.

The price is claimed to be nearly a third cheaper than that quoted by British Petroleum, which has the licences to develop Ulster's two other main lignite deposits – at Crumlin and in East Tyrone.

The difference between the various prices may determine the location of the power station will be built once they receive the Government go-ahead.

Meekatharra's chairman, Mr Don O'Callaghan, told shareholders in Sydney yesterday that an open-cast mine at Ballymoney, where it has prospecting rights, could supply some 3.1m tonnes per year of lignite – low calorie coal – at a cost of £7 per tonne, or 67 per gigajoule (a metric measurement of heat).

Although the lignite at Crumlin has a higher heat content, Meekatharra claims that the Ballymoney fuel is closer to the surface and therefore far cheaper to extract.

British Petroleum is believed to have proposed a price of about £15 per tonne for delivering lignite from Crumlin, which has a higher heat content. Since BP also has widespread interests in coal and oil, it has been suggested that it has been relating the lignite price to those of alternative fuels. But it denies this and says its price is based on the cost of mining plus a margin of profit.

Mr O'Callaghan's claims, at his company's annual general meeting, follow last week's announcement by Mr Tom King, Northern Ireland Secretary, that two private consortia and the publicly owned electricity utility have tabled plans to build and operate the 450 MW power station.

Mr King, who promised a decision early next year, strongly indicated that he would prefer a private sector operation as it would not affect public sector borrowing levels.

Although the lignite will be much cheaper than imported oil or coal – put by Mr O'Callaghan at more than £2 per gigajoule – it is also argued that the province's electricity prices could be more rapidly reduced by burning coal in the uncompleted part of the Kilroot oil-fired power station, half of which is already being adapted to coal.

Completion of Kilroot as a coal burner, it is claimed, would cost only £150m.

GKN to produce 'light' suspensions for cars

BY JOHN GRIFFITHS

GKN, the UK-based industrial conglomerate, is to develop and produce plastic composite suspensions for cars. They are intended to be up to 70 per cent lighter than conventional suspension systems.

The project is being pursued under a licensing agreement with the independent French research and development group, Bertin.

The venture is potentially of major significance to both GKN and Bertin. Weight-saving has become a priority objective of car makers around the world. A workable plastic composite system capable of the savings claimed would be very attractive to an industry which produces well over 30m cars a year worldwide.

GKN has already pioneered and patented plastic composite springs for commercial vehicles. Eight years in development, they are now on trial with commercial vehicle manufacturers around the world. GKN has already formed a joint venture with Mitsubishi to produce them in Japan.

The first commercial order for them was placed by Freight Rover last year, for the UK-produced Sherpa van.

The car spring venture is in line with GKN's strategy of developing vehicle components suitable for all world markets. Its most notable success in this field has been the constant velocity joint, first developed for the Mini in the 1950s, and which has been a required ingredient of front-wheel-drive cars – under GKN patent or licence – ever since.

A GKN spokesman said yesterday commercial availability of the car was spring envisaged within five years.

Unlike the commercial vehicle springs, the car suspension system was conceived by Bertin. The French company approached GKN because GKN appeared best placed to bring it into production.

Hoover will move head office to Wales

By Robin Reeves

HOOVER, the domestic appliance manufacturer, announced yesterday that it is moving its UK head office from Perivale, west London, to premises adjoining its washing machine plant at Merthyr Tydfyl, South Wales.

The company, which was acquired last year along with its US parent by Chicago Pacific, has decided to purchase Dragon Park, a 450,000 square-foot factory plus administrative offices, for an undisclosed sum.

The move, which is being assisted by a grant from the Welsh Office, was warmly welcomed by Mr Nicholas Edwards, the Welsh Secretary. He said the decision had been made to go to Merthyr despite competition from other parts of the UK. As such, it was a boost for the development of Merthyr and a triumph for Wales.

Hoover said that although the move would create up to 250 clerical jobs in Merthyr, it had no immediate plans to utilise the exceptionally large manufacturing space. This was originally earmarked for Hoover's use when it was built, but not occupied, although Hoover had been paying rent on the development for several years.

Dragon Park was constructed by the Welsh Development Agency (WDA) in the late 1970s at a cost of £14m to accomodate what was then planned as a major expansion in Hoover's UK manufacturing capacity, boosting the Merthyr site's employment from 5,500 to 8,000 jobs.

However, rather than take up the new premises, Hoover as a result of recession and international competition felt obliged to embark on a retrenchment and productivity drive which has reduced its workforce to a current level of fewer than 3,000.

Until yesterday's deal, the WDA had been hoping to land a major inward investment project for Dragon Park, once described as the largest advance factory in Western Europe.

Part of the new deal involved the WDA taking over for redevelopment other Hoover premises, used most recently for the ill fated Sinclair electric vehicle project.

Although as a result of yesterday's announcement a large part of the administration, sales and research and development is moving to Merthyr, Hoover will retain its overseas marketing headquarters, corporate finance and public affairs office in London.

TVS steps up drive to join 'big five' network companies

BY RAYMOND SNODDY

TELEVISION SOUTH (TVS), one of the fastest-growing independent television companies, has renewed its campaign to join the "big five" network companies which make the bulk of ITV programmes shown nationally.

TVS, the ITV franchise holder for the south of England, has made a new appeal to the Independent Broadcasting Authority (IBA) to join the network companies when the present eight-year franchise runs out in 1989.

TVS is arguing that the change should come at the beginning of the three-year franchise extension planned by the Government. The Government has already introduced a bill to implement the extension in the House of Lords.

The IBA intends to issue new three year contracts to the existing 15 ITV companies and will probably take the opportunity to make some changes to the contracts.

One will be to introduce an obligation to use the work of independent producers – an issue raised by the Peacock Report. Network status for TVS, by turning the "big five" into the "big six" is also receiving sympathetic consideration at the IBA.

IBA officials concede that by 1990, TVS could be the third largest ITV company in terms of advertising revenue because of the growing wealth of its franchise area. Yet, at the moment it is classified as a regional company with a very limited role in making national as opposed to local programmes.

If it makes a expensive drama, for instance, it has no guarantee it will be shown nationally. The programme controllers of the "big five" – Thames, London Weekend Television, Central, Granada and Yorkshire – have the right of veto.

Yet TVS now has 10.6 per cent of total net advertising revenue, which could reach £1.2bn this year. It has already passed Yorkshire at 9.1 per cent, is breathing down the neck of LWT at 11.1 per cent and not so far from Granada at 11.8 per cent.

TVS pre-profits in the six months to the end of April doubled to £6.5m and analysts expect £12m–£13m for the full year. It is believed that the company has told the IBA that if it is promised network status for the three-year extension period, it will build a third studio at its headquarters at Southampton.

Larger scale programmes often have an 18 month lead time and TVS would start making and stockpiling programmes for the network almost immediately.

The company founded by Mr James Gatward, the present chief executive, believes that in a period of increasing competition from cable and satellite television the network will need all available revenue to produce quality programmes.

With limits on its access to the network TVS has been diversifying into international markets – particularly the marketing and distribution of television programmes.

Elopak in food pack link with Metal Box

By Tony Jackson

METAL BOX, the UK diversified packaging group, has formed a joint venture with Elopak of Norway, one of the world's biggest makers of milk cartons, to develop cartons for ready-cooked meals.

The new company, to be known as Odin Developments, will exploit technology developed in secret partnership by the two companies over the past year. Products are expected to reach the market within 15 months.

The use of cardboard cartons for aseptic food packaging is one of the fastest developing areas in the industry. The pioneer worldwide has been Bowater Industries of the UK, which in conjunction with Crosse & Blackwell, the Nestlé subsidiary, last year brought to the market a range of cartoned soups.

The same principle is to be applied by Metal Box and Elopak. The technical problem consists of packing solids, such as bits of meat or vegetable, in an aseptic carton.

Whereas the Bowater system could originally accomodate bits only 8mm in size, the Odin venture aims to handle chunks of up to 25mm. This would allow stews and other prepared meals to be put into cartons, with a shelf life of between 3 months and a year, and all the claimed taste advantages of flash-heating as opposed to the slow cooking in a can.

Europe's largest textile thread dye house opened by Tootal

BY ANTHONY MORETON, TEXTILES CORRESPONDENT

TOOTAL, the UK textiles group, has opened a £7m computer-controlled dye house at Newton Mearns, on the outskirts of Glasgow, in central Scotland.

The plant, which employs 140 people, is the largest thread dye house in Europe, according to Mr Geoffrey Maddrell, managing director of the Manchester-based concern. "It is also the most up-to-date works of its kind in the world," he said.

Tootal is one of the largest fibres-to-clothes concerns in Britain after Courtaulds and Coates Vyella. Threads account for £173m out of total sales of £388m, 45 per cent of turnover.

The investment at Newton Mearns has been undertaken by Tootal's English Sewing subsidiary, and represents "a major rationalisation and reorganisation of production and distribution."

"The UK sewing thread market requires high quality, high performance produce. Price is, however, an important factor for manufacturers. By acting now, Tootal is well placed to maintain its lead in the market over the next decade," Mr Maddrell said.

Newton Mearns is in a development area and the investment qualified for regional development grants. Government financial assistance is thought to have amounted to between £3m and £3.5m.

As part of the project a large section of English Sewing Thread production, research and quality control operations have been relocated to the nearby Neilston mill, which employs about 600 people.

English Sewing claims to be the largest manufacturer of sewing thread in the UK. It produces 135 different commercial and domestic thread products each in a range of colours, which add up to more than 20,000 items.

The company was the pioneer 25 years ago of a corespun thread, under the trade name Polyfil, by which a polyester yarn is covered with a cotton sheath. This gives added properties and has given the company the best-selling thread in the clothing industry.

Call to halt rural decline

By Andrew Taylor

NOT ENOUGH is being done to regenerate declining rural areas, such as Cornwall in the west of England and Durham in the north-east where unemployment rates are 19 per cent and higher, according to the annual report of the Development Commission, the government-funded rural development agency.

It says that some of the savings in agricultural support as a result of changes in EEC farm policies should be used to regenerate depressed rural communities.

The commission's report, published today, says the need to create new jobs is often forgotten in a countryside debate which tends to concentrate on conservation and "green" issues.

"With Westminster still largely preoccupied with the more obvious problems of inner cities, it is hardly surprising that those in rural areas feel that few people understand or care about them," says Lord Vinson, the commission's chairman.

The commission, which in 1986-87, expects to have spent £28.5m on providing premises grants, loans, training and advice to mostly small businesses has asked the Government to increase its budget by £5m next year, double the £2.5m which has been offered.

It says that relatively little effort has been put into tackling the problems of rising unemployment, limited housing and poor services in rural communities by comparison with resources available to urban areas.

These problems are likely to be exacerbated by shifts in the European Community Common Agricultural Policy. Last year 7000 agricultural jobs were shed in England alone, compared with 1,000 the previous year. To this must be added the thousands of jobs lost in the agricultural service industries.

"We believe there is an opportunity for government to demonstrate its concern for rural areas and to help them adjust by redirecting some of the savings from agricultural support into more general support for rural communities," says Lord Vinson.

The commission says that in future the vast majority of new jobs in rural areas will have to be created off the farm. This means that money and premises will have to be found for other types of business. Planners will have to be more imaginative in allowing alternative land uses.

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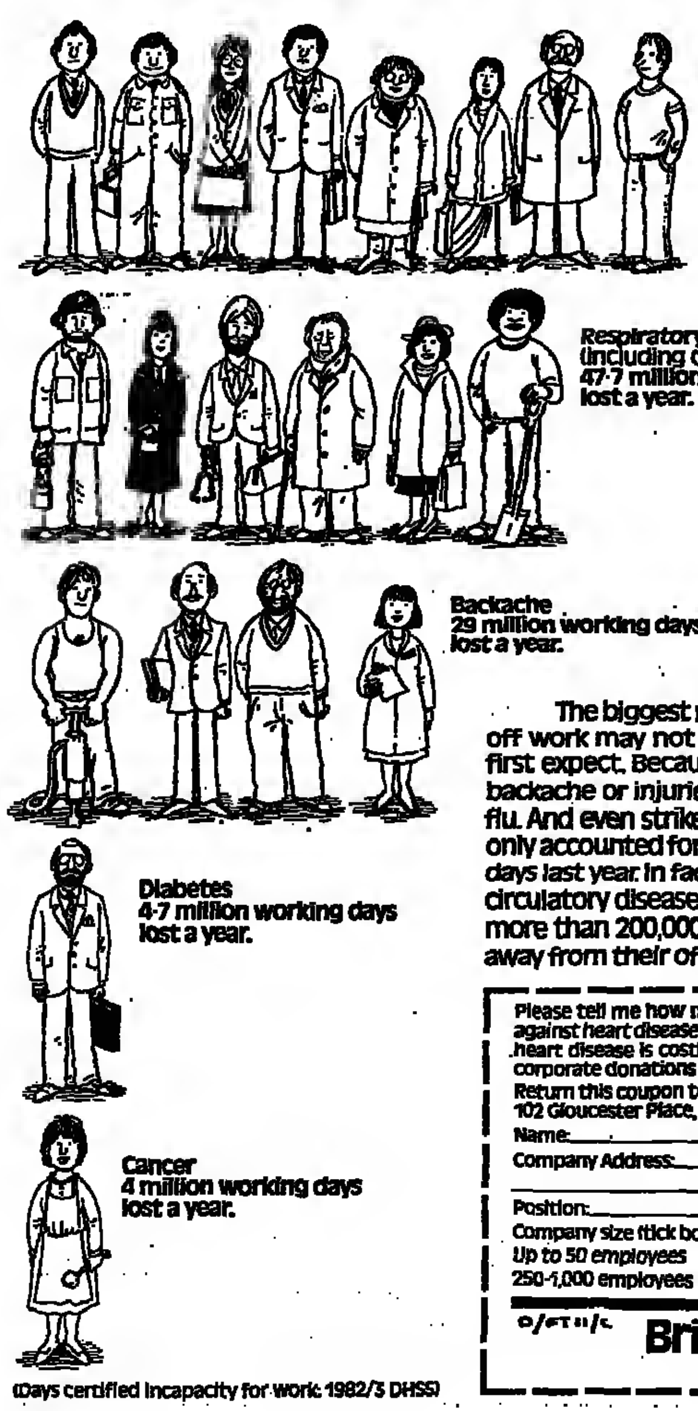

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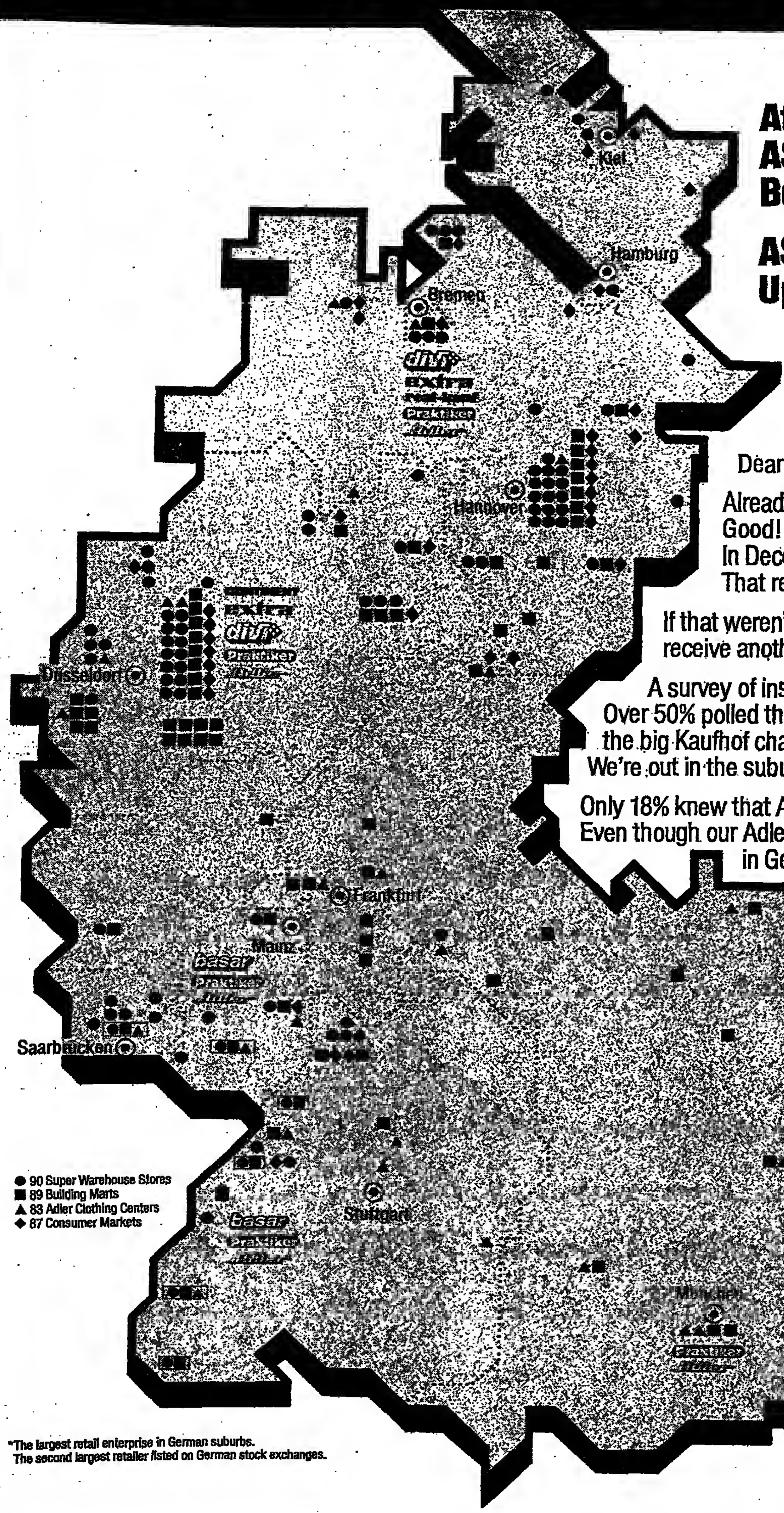

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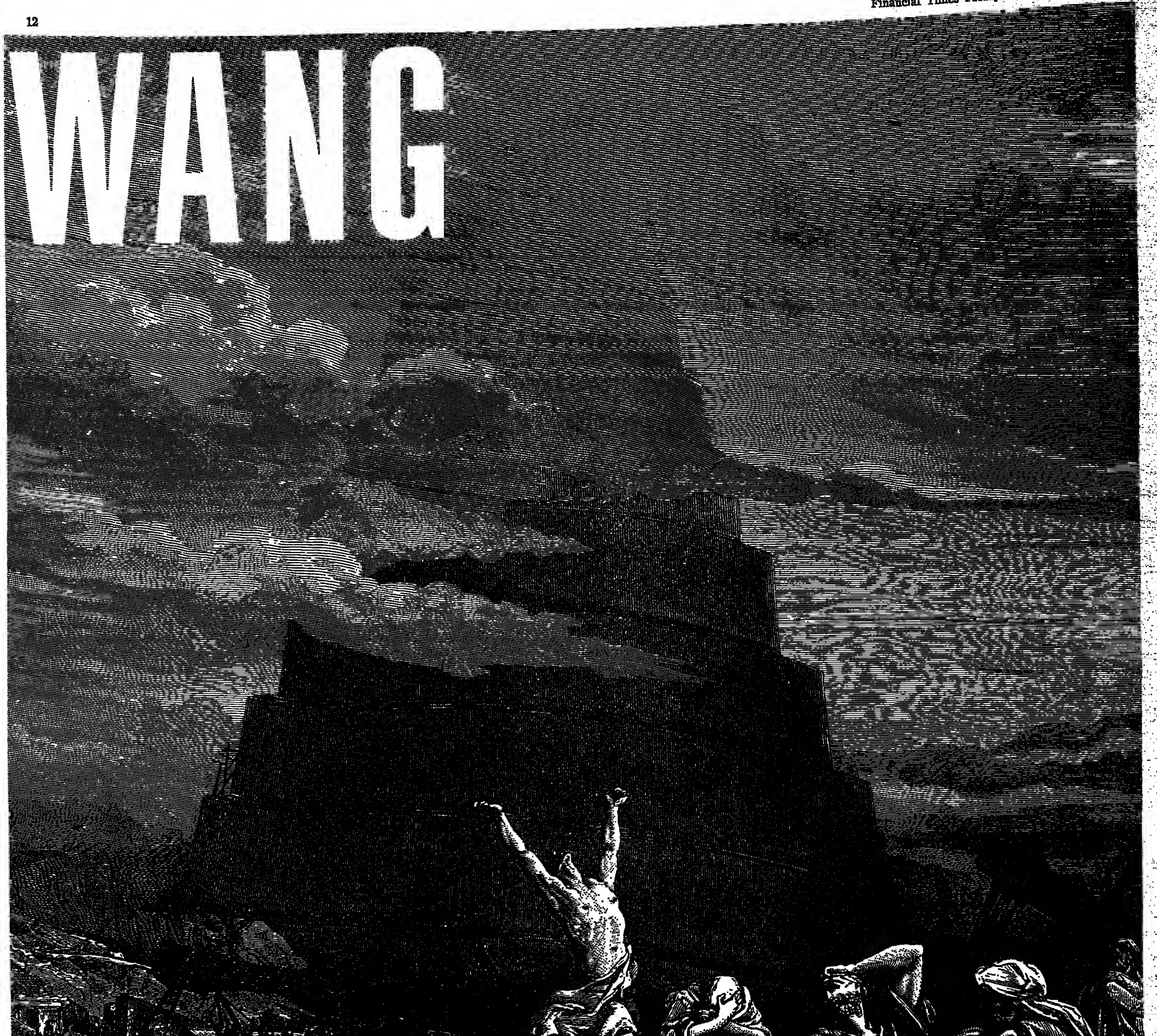
WANG
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MAKES

And they said, Go to, let us build a city and a tower, whose top may reach unto heaven;

And the Lord said, Behold, the people is one, and they have all one language... and now nothing will be restrained from them, which they have imagined to do. Let us go down, and there confound their language, that they may not understand one another.

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IT

APPOINTMENTS

Reorganisation at Babcock Power

On January 1 BABCOCK POWER will change its name to Babcock Energy. The activities of Babcock Energy will be controlled by five divisions. The largest, including all the core (boiler, nuclear and defence) activities, will be the Babcock Power division, the managing director of which will be Mr John H. Lace. Mr Lace is projects director of Babcock Power. The other divisions of Babcock Energy are: Babcock Construction — managing director, Mr Peter R. McAinsh who in addition is deputy managing director of Babcock Energy. Babcock Industrial Boilers—managing director, Mr Ian L. Steven. Babcock PED — managing director, Mr Alan A. MacPherson. Babcock Offshore — chairman, Mr R. H. Campbell.

*

BRADSTOCK GROUP has changed the name of its service company, Bradstock, Plunket & Crawley, to Bradstock Group Services. The directors are: Mr D. F. Bradstock, chairman; Mr R. E. G. Gibson; Mr E. B. McGrath; Mr B. Jeffreys, joint managing director and secretary (group, company secretary); Mr P. W. Ballard, joint managing director (group chief accountant); and Mr R. G. Bax (group financial controller).

*

Mr David Malcolm, chief investment manager, ROYAL INSURANCE, has been appointed a deputy general manager, from January 1.

*

Peat Marwick partner, Mr Alan Hardcastle, has been appointed to the councils of LLOYD'S as one of its nominated members from January 1. He succeeds Mr Grandon Gough, senior partner of Coopers & Lybrand, who has served on the Council since it was established in January 1983.

*

ROBSON RHODES has appointed Mr Peter Croft as senior manager in its venture capital division. He joins the Cambridge office team on January 1. He is at present with Prelude Technology Investments.

*

Mr K. B. Wills retires from the boards of THE EQUITABLE LIFE ASSURANCE SOCIETY and Equitable Units Administration on December 31. At the same time he will retire as assistant general manager responsible for the marketing organisation of the society. Mr S. M. Kinnis, one of the society's regional managers, has been appointed assistant general manager with responsibility for the marketing in succession to Mr Wills.

*

MANUFACTURERS HANOVER TRUST CO has promoted Mr Gordon M. Rennoldson to vice president. He is in the bank's UK domestic group.

*

Mr Stephen Swords has been appointed a director of HABIT PRECISION ENGINEERING. He is chairman of Mantell Technical Services and managing director of Woodfield Engineering Co, both subsidiaries of Habit Precision Engineering.

*

Mr James Davis, a director of Kleinwort Benson, has been appointed chairman of the Simplification of the International Trade Procedures Board (SITPRO) from January 1, initially for three years. He succeeds Sir Gordon Booth.

*

Mr Peter Maddock has been appointed finance director of EAST LONDON TELECOMMUNICATIONS.

*

SVENSKA HANDELSBANKEN has appointed Mr Richard Fry as associate director—capital markets; and Mr Noel Meredith as senior manager—banking services.

*

Mr Alex Kinnison has been appointed general manager of BANQUE NATIONALE DE PARIS PLC and Mr Daniel Gandolfo has been appointed deputy general manager.

*

Mr Gareth J. Thomas has been appointed a director of THOMAS WARRINGTON & SONS. He is a director of Intercity Estates Group.

*

Mr Peter R. Williams has been appointed a director of HAMBROS BANK (JERSEY).

*

Mr Rhett H. Walker has been appointed chief executive and managing director of CHALFORD COMMUNICATIONS.

*

McAVOY WREFORD BAYLEY has appointed as directors: Mr Tony Iveson, Mr John de Mierre and Mr Richard Orgill.

*

Mr David Morgan of the Plessey Company has been appointed director (designate) of the ALVEY SOFTWARE ENGINEERING programme. This is the second time an Alvey director has been seconded from Plessey. Mr Morgan has been involved with the Alvey programme since its inception in 1983 as a member of the formal methods advisory group. He is research director (systems-software) at Plessey's Roke Manor research laboratory. In the Alvey directorate Mr Morgan will continue directing and co-ordinating the software engineering programme, with a particular interest in assessing the results of the Alvey programme. He takes over from Dr Rob Witty who returns to the Rutherford Appleton Laboratory. The Alvey programme is a five-year programme of collaborative research in the enabling technologies of information technology. Projects are jointly sponsored by the DTI, the Ministry of Defence and the Science and Engineering Research Council, together with industry. The programme has an overall budget of £350m, of which more than half will be provided by Government. The programme started in June 1983.

*

Mr Tom Phillips has been appointed group financial controller of TIPHOOK, Bromley. He was financial director of Central Trailer Rental, a member of the Tiphook group.

*

Mr Timothy Lindberg, head of swaps and new product development at Bankers Trust International in London, has been appointed head of BANKERS TRUST'S Hong Kong operations including all commercial and investment banking activities located there.

CONTRACTS

Leicestershire quarry plant project

MATTHEW HALL ORTECH has been awarded a contract valued in excess of £14m by Tarmac Roadstone to design and construct a quarry plant at Stud Farm Quarry in Leicestershire. This is the second multi-million pound quarry plant order placed with the company in a matter of weeks. It is for the project management, design, supply, erection and commissioning of a 1,100 tonnes per hour processing plant incorporating five-stage granite crushing and screening facilities. It has been designed to give product flexibility, ranging from railway ballast through the normal aggregate range down to 5 mm. A micro-processor system will control both production and outloading of material at an optimum rate, and the project includes bunker storage, handling and reclaim facilities to both lorry and rail terminals. Work is due for completion in January 1989.

*

A turnkey contract worth £5.8m for an electrical installation on Clydeside in Scotland has been won by HAWKER SIDDELEY POWER ENGINEERING of Burton-on-the-Wolds, Leicestershire. It has been awarded by the Department of the Environment, Property Services Agency, Directorate of Defence, Services II. The contract comprises a 132/133 kV outdoor substation and 33 kV distribution to defence installations in the Clyde area. Hawker Siddeley will be supplying most of the electrical equipment comprising: two 132 kV SF6 circuit breakers (Brush Switchgear), seven 33 kV isolators (South Wales Switchgear), two 132/33 kV power transformers and four 33/11 kV power transformers (Hawker Siddeley Power Transformers). Other work includes the supply and installation of 132 kV and 33 kV cables and 7 km of 33 kV overhead distribution line. The contract is due for completion in 1988.

*

The Ministry of Defence has placed a second production order for 10 sonars for the Royal Navy's anti-submarine warfare ships. The contract, worth about £20m, has been awarded to FERRANTI COMPUTER SYSTEMS, which is developing the hull-mounted sonar for the new Tye 23 frigate and for planned retrofitting into other frigates and destroyers. The work will last four years and will sustain about 160 jobs. Further contracts, estimated at about £6m, will be placed for the hull-mounted sonar arrays and associated equipments. These will be awarded as e result of competition.

*

TAYWOOD ENGINEERING (TEL), part of the Taylor Woodrow Group, is to study aspects of the disposal of radioactive wastes. The Department of the Environment has placed a three-year contract, worth £3.1m, with TEL, which is carrying out the work at the laboratories of the United Kingdom Atomic Energy Authority (UKAEA) at Winfrith, Dorset. The studies entail checking low-level wastes to ensure their suitability for safe disposal. TEL is managing the work and is providing expertise in concrete technology. Amersham International is advising on measurement of radioactivity and laboratory design, while Warwick University is providing a microbiologist to study the effect of storing radioactive wastes on micro-organisms within the storage area. The UKAEA is providing the laboratory facilities, instruments and advising on waste technology.

*

DOWTY ROTOL, Staverton, has received orders for aerospace equipment, worth over £30m. The orders cover landing gear, propellers, high lift systems and hydraulic system components for six civil and military aircraft types being produced in five countries. Among the equipment is landing gear for the A310 Airbus and Tornado, landing gear and hydraulics for the AV-8B Harrier II and Harrier GR Mk 5, landing gear, flap system and hydraulics for the BAe 146 and propellers for the Jetstream 31.

*

British Railways Board has placed contracts worth some £14m with nine private sector companies. They are GEC Telecommunications (£3.8m) for supply and installation of equipment for Waterloo area resignalling; Rush and Tompkins (£3.3m) for construction of a rail/air lounge at Victoria Station, London; Brush Electrical Machines (£1.5m) for electrical equipment for Class 37 diesel locomotives; John Laing Construction (£1.4m) for construction of an underbridge at Braintree, Essex; Fairclough (CE) (£1.2m) for construction of an underbridge between Northfleet and Gravesend; Sir Robert McAlpine (£1.1m) for groundworks for the new Reading station; Calor Gas and BOC (£1.1m shared) for supply of propane and butane gas; and Telephone Cables (£1m) for telecommunications equipment between Bournemouth and Weymouth.

*

The interior design contract for what may be the most technologically advanced office complex in Sydney has been awarded to DAVID HICKS PEDDLE THORP—a newly-formed joint venture between British-based David Hicks International and one of Australia's top architectural practices, Peddle Thorp & Walker. The new building will be the headquarters of the New South Wales-based St George Building Society (the largest building society in Australia). Construction will start in early 1987 and the project is to be completed by October 1988. The interior fit-out contract value will be between $15m and $20m (£6.8m-£9.1m).

*

An additional batch of FERRANTI Type 520 laser rangefinders has been ordered by Vickers Instruments of York for incorporation in the Vickers L20 gunner's sight. The order covers the initial procurement of the L20 sight by a Far East customer for use in Scorpion tanks. Further orders are expected over the next four years bringing the total to 160 including spares, worth about £1.5m at today's prices. The Type 520 provides a range read-out display in the sight's eyepiece of up to 9,995 metres to an accuracy of ± 5 metres. Accuracy over extreme ranges is achieved by using a narrow beam to minimise beam overspill.

Company Notices

ESCOM
Electricity Supply Commission

ECU 50,000,000
Floating Rate Notes due 1990

In accordance with the terms and conditions of the Notes, notice is hereby given that for the Interest Period from November 28, 1986 to February 27, 1987 the Notes will carry an Interest Rate of 7⅞% per annum.

The interest payable on the relevant Interest Payment Date, February 27, 1987 against coupon No 7 will be ECU 20.06 per Note.

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C. ITOH & CO. LIMITED

Announces the following: It has been determined at a Board Meeting held on [illegible] November 1986, that the interim dividend for the year [illegible] ... HAMBROS BANK LIMITED 28th November 1986

THE COLNE VALLEY WATER COMPANY

NOTICE IS HEREBY GIVEN that the Transfer Books of all the Debenture Stocks of the Company will be closed on [illegible] December 1986 for one day only, for the preparation of the Interest Warrants payable on 1st January 1987.

Dated this 28th day of November 1986.

W. A. COSGROVE, Secretary

Blackwell House, Aldenham Road, Watford, Hertfordshire WD2 2EY.

Legal Notices

IN THE MATTER OF DYNAMICS (UK) LIMITED AND IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Creditors of the above-named Company, which is being voluntarily wound up, are required, on or before the 22nd day of December 1986 to send in their full Christian and Surnames, their addresses and descriptions, full particulars of their debts or claims, and the names and addresses of their Solicitors (if any), to the undersigned SURJIT KUMAR SINGLA, F.C.A. of Singla & Co., Chartered Accountants, of New Broad Street House, 35 New Broad Street, London, EC2M 1NH, the Liquidator of the said Company, and, if so required by notice in writing from the said Liquidator, are, personally or by their Solicitors, to come in and prove their debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.

Dated this 27th day of October 1986.

S. K. SINGLA Liquidator.

IN THE MATTER OF GEMBURGH LIMITED AND IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Creditors of the above-named Company, which is being voluntarily wound up, are required, on or before the 14th day of January 1987 to send in their full Christian and Surnames, their addresses and descriptions, full particulars of their debts or claims, and the names and addresses of their Solicitors (if any), to the undersigned SURJIT KUMAR SINGLA, F.C.A. of Singla & Co., Chartered Accountants, of New Broad Street House, 35 New Broad Street, London, EC2M 1NH, the Liquidator of the said Company, and, if so required by notice in writing from the said Liquidator, are, personally or by their Solicitors, to come in and prove their debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.

Dated this 14th day of November 1986.

S. K. SINGLA Liquidator.

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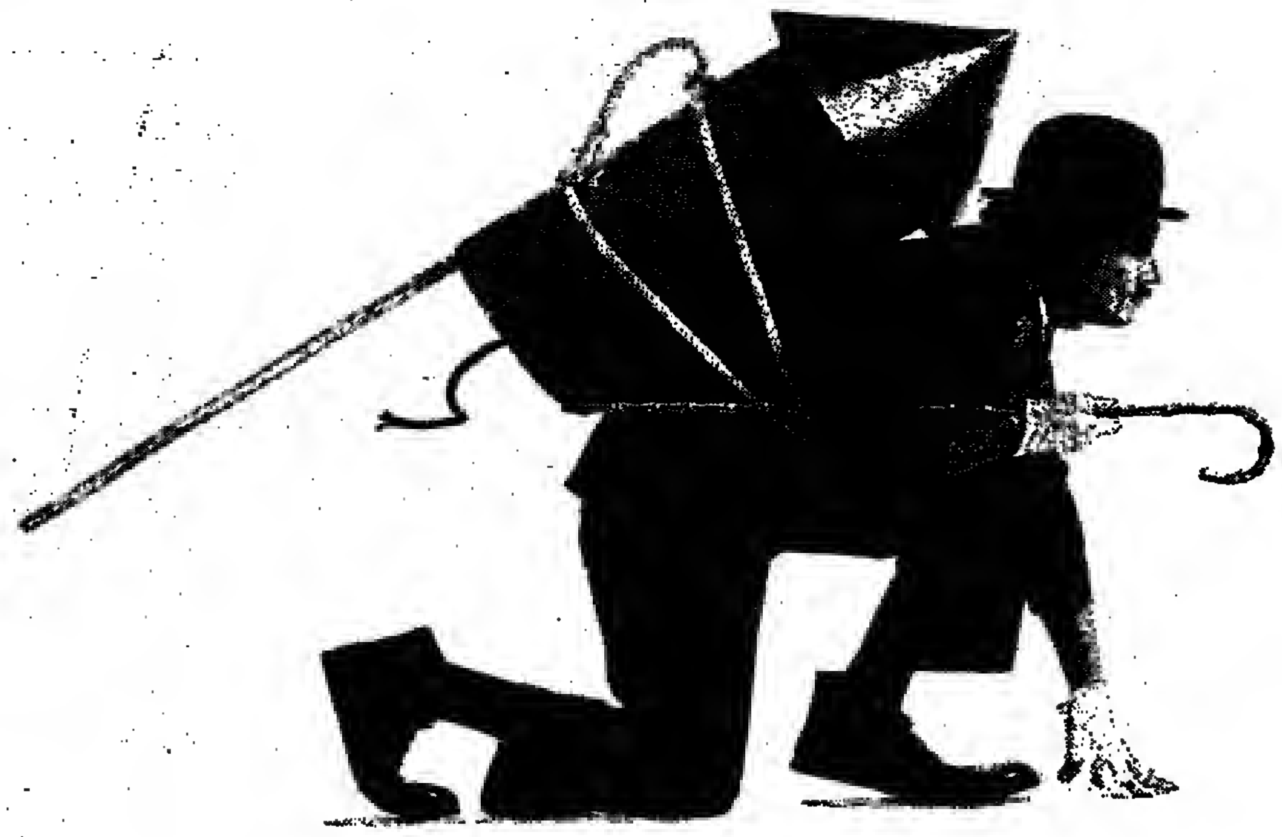

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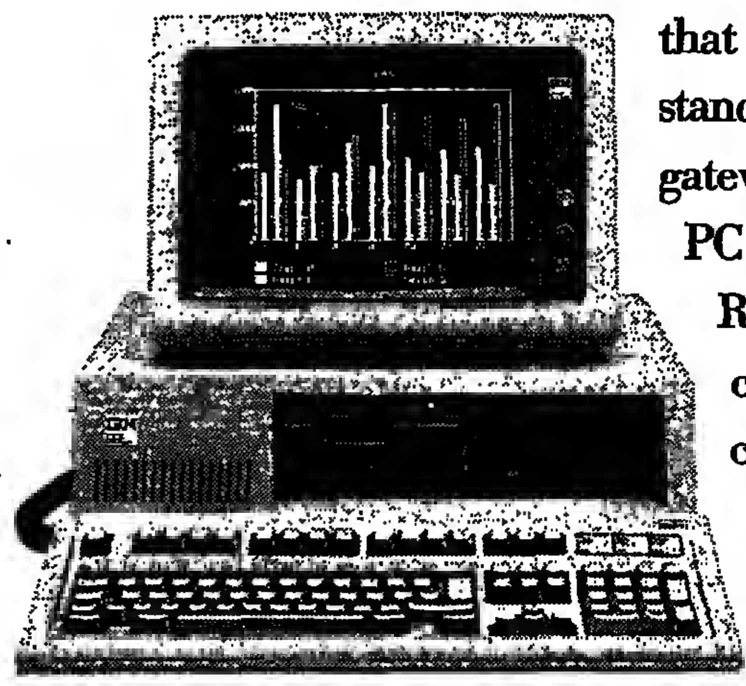

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THE PROPERTY MARKET By PAUL CHEESERIGHT

INNER CITY SQUABBLES

Bredero and the Hammersmith Council at loggerheads

MR NICHOLAS RIDLEY, the Environment Secretary, has to decide how to break up the planning impasse into which the Hammersmith and Fulham Council, Bredero Properties and London Regional Transport have worked themselves.

He may call a public inquiry to examine Bredero-LRT plans for the redevelopment of the Hammersmith Island site. He may ask for written submissions and make his own mind up. The papers are on his desk following a planning appeal made by Bredero and LRT.

It is an important case on both the planning and the corporate levels.

First, it has the main elements of the classic planning horror story — indecision arising from changing demands, the breakdown of a politically bipartisan approach to redevelopment and legal action. That adds up to two decades of inaction for a site which is at once seedy and vital as a major transport interchange.

Second, at about £100m it would be the biggest venture Bredero has undertaken. While the company has a substantial programme without it, "its main importance is for our image in the stock market," according to Mr Allan Chisholm, the managing director.

Although Bredero was 52 times over-subscribed when it came to the market last June, there is some evidence that, at least until recently, the Hammersmith hiatus has weighed on the share price.

In fact, Bredero has been involved at Hammersmith for six years, although the saga started back in the 1970s. It became involved because, at its own initiative, it forged an alliance with the old London Transport.

London Transport wanted a new underground-bus interchange at Hammersmith and saw office development as the means of financing it. The council had accepted just such a scheme in the late 1970s.

Bredero worked up the scheme and an outline planning permission was granted by the Hammersmith Council with Greater London Council blessing in 1980. At that stage both the Conservative and Labour parties were behind the idea, although they had differences of emphasis.

In the early 1980s, the GLC of Mr Ken Livingstone became more interested: it was not keen, for example, that there should be a bus garage on the site, as London Transport had originally wanted. It put on pressure to reduce the office content of the scheme. The local council meanwhile had concluded that it did not need the library specified in the outline planning permission.

Talks between the four parties resulted in the submission to the Hammersmith Council of a new plan—fewer offices, no bus garage, no library—within the framework of the outline planning permission.

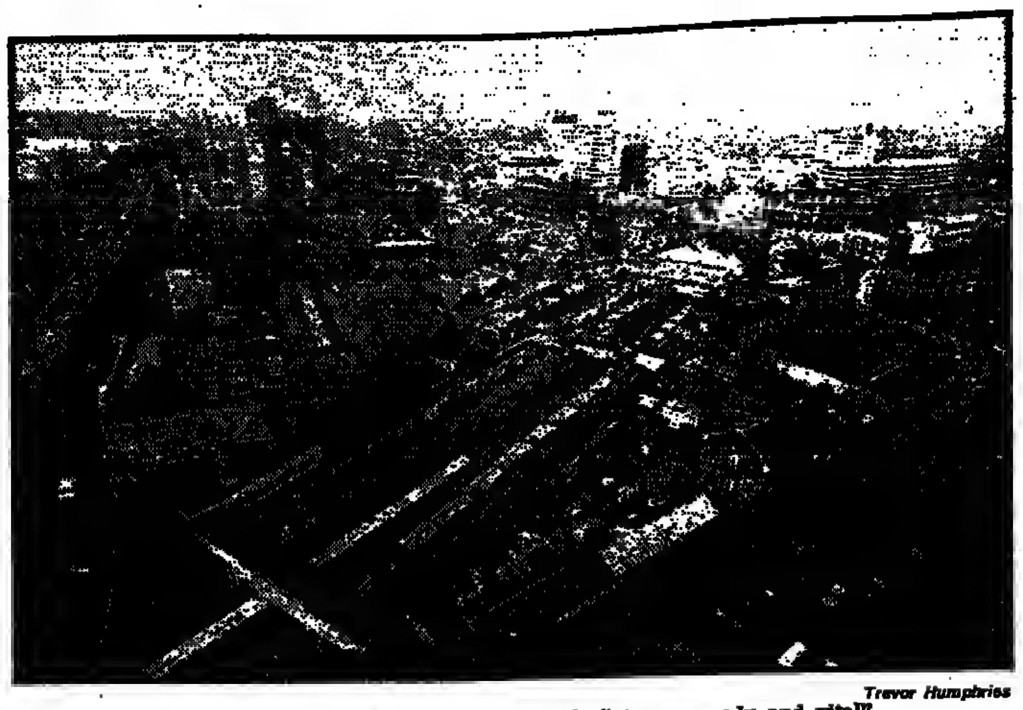
Now, enter the High Court. The Greater London Council went there to seek a ruling, arguing that the Hammersmith Council could not consider the new plan because it was outside the terms of the outline consent. The Court took the attitude that, because the GLC and the Hammersmith Council had wanted exclusions from the plan, it was, indeed, not unreasonable that there should be exclusions.

The year of the High Court action—1984—was also the year the alternative plan emerged, devised by Mr Terry Farrell for the Hammersmith and Fulham Community Trust, a local environmental group. The plan provided for a lower office content than the Bredero plan and had within it a greater diversity of uses for the site.

But after the court proceedings, Bredero and London Transport, soon to become London Regional Transport, started detailed discussions with the Hammersmith Council, which led in April, five days before the local authority elections, to detailed planning permission.

Then the council was Conservative. After the election it was Labour. By this time the bipartisan attitude of six years before had evaporated. Labour was vigorously against Bredero, vigorously for the Farrell plan.

Last June then, the Hammersmith Council made the site a conservation area. That meant that Bredero would have to seek a new permission for the demolition of buildings. In other words the whole question was put back in the melting pot.



Trevor Humphries

Hammersmith: the six acre island site is "at once seedy and vital"

Bredero sought the permission—twice, according to the council, because the first time round it did not complete the forms correctly. The council did not act. So Bredero and LRT then appealed to the Environment Secretary.

It is back to square one. There is agreement that the site needs to be re-developed, but no agreement on the means. The Bredero plan is for 560,000 sq ft of offices, built in four phases, 40,000 sq ft of shopping space, plus the transport interchange and 400 car parking spaces.

This, said Mr Melvyn Silverman, chairman of the Hammersmith Council's planning committee, "is irrelevant to community needs . . . a terrible waste of a unique area." The council wants "a smaller scale, more human scheme" and believes the Farrell ideas meet its criteria.

The weakness of the council position is that LRT owns the greater part of the land. "The trust is stymied without the support of LRT," said a spokeswoman. Hence Mr Silverman's hope that "LRT will withdraw their backing for Bredero and fall in with the council's realistic approach to dealing with the island site and so remove the uncertainty."

That last word is the key both in terms of the planning process and in terms of Bredero's fortunes. The uncertainty engendered by years of dispute is one of the main factors behind dissatisfaction with the planning process and current attempts to streamline it.

It is one of the principal reasons behind the Government's latest idea of setting up urban development corporations emulating London Docklands and Merseyside but without the financial support. They are a device to cut through the planning tangle.

At a different level, the uncertainty has impinged on the Bredero share price. Latterly, the market has tended to ignore it, being more impressed by the financial problems of Verenigde Bedrijven Bredero, the Dutch group, which retains a 49.5 per cent stake in the British company.

The thought that this stake might be sold has attracted speculetive interest, especially since it can be linked with other rumours thet Mr Stuart Lipton of Stanhope is looking for a vehicle into which he can back his company. This week then the Bredero shares have been firmer, at 140p yesterday, against a low since the issue of 110p, a high of 175p and an offer price of 145p.

The company has consistently sought to play down Hammersmith. At the time of the flotation, it was stressing that its £95m development programme did not include the island site. Even now Mr Chisholm remains detached. "If we don't do it, we'll do something else and make the same amount of money."

In the next breath though he is all determination. "We will fight for Hammersmith, because we don't like giving up a good project."

In fact, Hammersmith is a departure for a company whose activities have been split broadly between residential developments in Scotland and shopping centres in the south. The exception to that is its £50m plus venture in the Aberdeen city centre, again largely retail.

Aberdeen, given the downturn in North Sea oil fortunes, has also weighed on the market price of the shares, but Bredero has not been exposed to that particular, and now hapless, housing market.

Because of the growth coming through from commercial developments — Epsom, St Albans, High Wycombe — the proportion of revenue from residential property this year will decline to under 25 per cent of the total. And pre-tax profits are estimated at £2.8m for 1986, up by over a third on 1985.

AT THE HEART OF THE CITY
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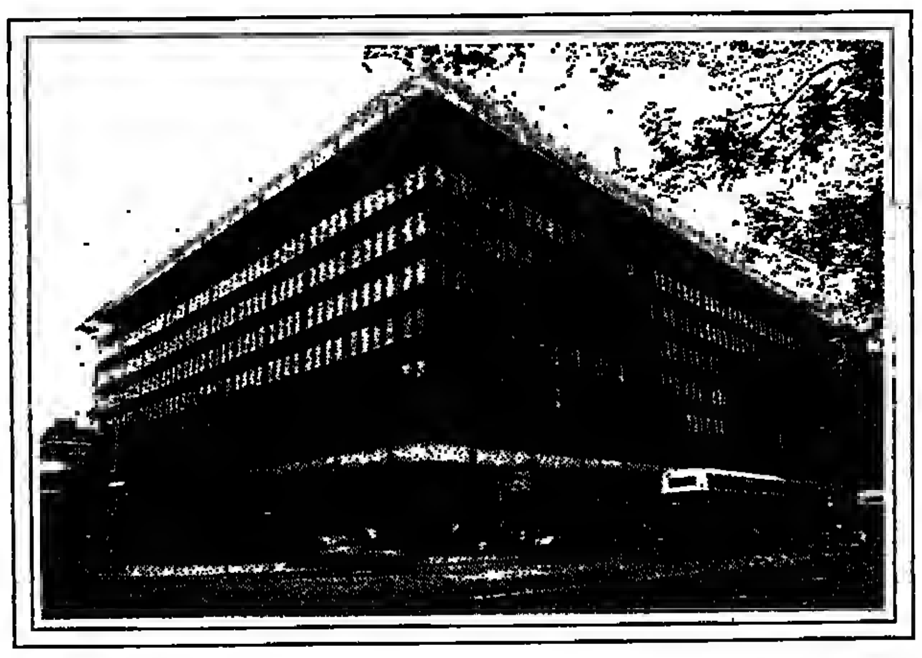

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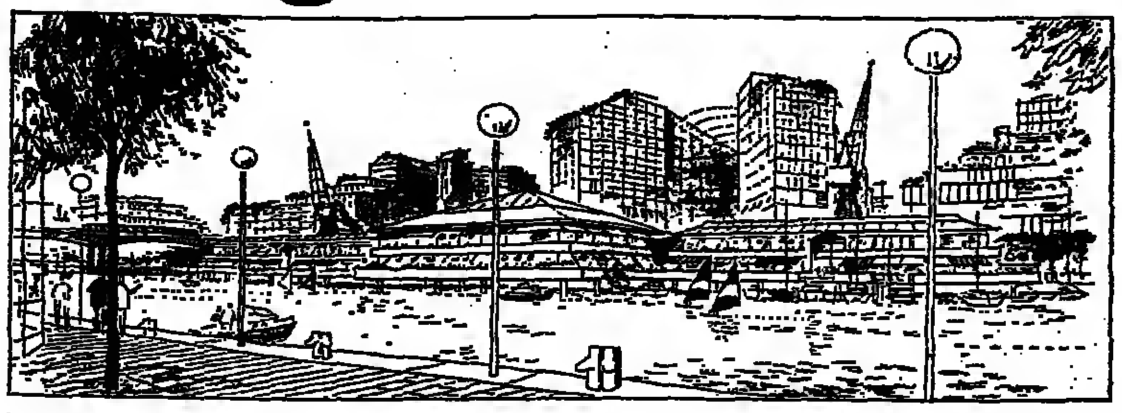

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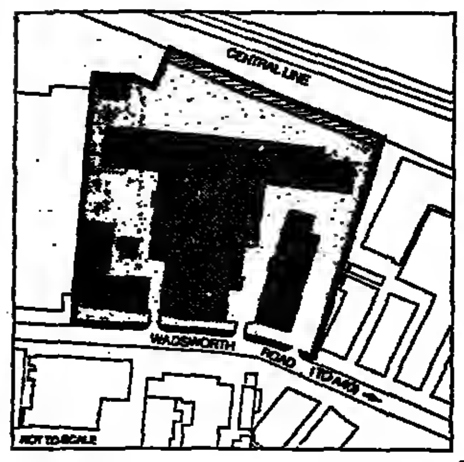

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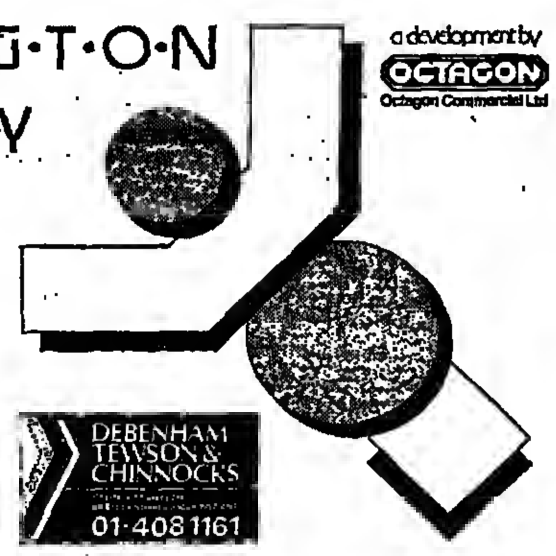

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Company Notices

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NOTICE OF REDEMPTION
TO THE HOLDERS OF 10% DEBENTURES DUE JUNE 1, 1989

NOTICE IS HEREBY GIVEN, pursuant to the provisions of the Trust Deed of Hypothec, Mortgage and Pledge and a Deed of Trust and Mortgage (the "Principal Trust Deed"), both bearing formal date of June 1, 1975, as supplemented by deeds supplemental thereto including, among others, a Supplemental Trust Deed bearing formal date of June 1, 1979 (all hereinafter collectively called the "Trust Deed") between Genstar Corporation (hereinafter called the "Company") and Montreal Trust Company (hereinafter called the "Trustee"), as Trustee, providing for the creation and issue of Debentures of the Company, THAT all of the outstanding 10% Debentures due June 1, 1989 of the Company have been called for redemption by the Company on December 15, 1986 and will be redeemed by the Company on December 15, 1986 by payment, in lawful money of the United States of America, of the redemption price of one hundred and one per cent (101%) of the principal amount of such Debentures, together with all interest accrued and unpaid on the principal amount of the Debenture so redeemed from and including June 1, 1986 up to but excluding December 15, 1986, upon presentation and surrender of the said Debentures accompanied by all interest coupons appertaining thereto which mature after June 1, 1986, at any of the following places, namely: the principal office of The Royal Bank of Canada, 1 Place Ville Marie, Montreal, Quebec, Canada, or of Morgan Guaranty Trust Company of New York, 23 Wall Street, New York, United States of America, or, at the option of the holder, at The Royal Bank of Canada, 6 Lothbury, London, England, or at Banque Generale du Luxembourg, 14 rue Aldringen, Luxembourg, or at Morgan Guaranty Trust Company of New York, Avenue des Arts 35, B-1040 Bruxelles, Belgium. If such Debentures are presented for payment without all interest coupons appertaining thereto which mature after June 1, 1986, the amount of the missing unmatured coupons will be deducted from the redemption monies due for payment.

NOTICE IS ALSO HEREBY GIVEN that, in accordance with the terms of the Trust Deed, all interest on the Debentures so called for redemption shall cease to accrue on and after the 15th day of December, 1986.

Dated at Vancouver, British Columbia, Canada, this 31st day of October, 1986.

GENSTAR CORPORATION
Bryan W. Bennett, Assistant Treasurer

UNILEVER N.V.

4% REDEEMABLE CUMULATIVE PREFERENCE SUB-SHARES OF Fl. 12 ISSUED BY N.V. NEDERLANDSCH ADMINISTRATIE- EN TRUSTKANTOOR

The dividend for 1986 of 4% (Fl.0.48) Serial No. 73 will be paid on and after 2 January 1987. To obtain this dividend certificates must be listed on listing forms obtainable from one of the following banks:-

Midland Bank plc, Stock Exchange Services Department, Mariner House, Pepys Street, London EC3N 4DA;
Northern Bank Limited, 2 Waring Street, Belfast BT1 2EE;
Allied Irish Banks plc, Securities Department, Stock Exchange, Bank Centre, Ballsbridge, Dublin 4.
Clydesdale Bank PLC, 30 St. Vincent Place, Glasgow.

Separate forms are available for use (a) by Banks, UK firms of Stockbrokers, Solicitors or Chartered Accountants (b) by other claimants. Notes on the procedure, in each case, are printed on the forms.

Fuller details of the dividend may be obtained from the above named banks on and after 28 December 1986.

EXCHANGES of original shares for certificates of sub-shares and vice versa will be SUSPENDED from 12 December 1986 to 28 December 1986 both dates inclusive.

Certificates will only be accepted for exchange after 28 December provided that all dividends declared prior to that date have been claimed.

N.V. NEDERLANDSCH ADMINISTRATIE- EN TRUSTKANTOOR
London Transfer Office, Unilever House, Blackfriars, London EC4P 4BQ.
27 November 1986.

4% REDEEMABLE CUMULATIVE PREFERENCE ORIGINAL SHARES

The dividend will be paid on and after 2 January 1987 against surrender of Coupon No. 73. Coupons should be sent to one of the Paying Agents in the Netherlands accompanied by an income tax form for relief from Dutch tax obtainable from Midland Bank plc, Stock Exchange Services Department, Mariner House, Pepys Street, London EC3N 4DA, from which fuller details of the dividend may be obtained.

CREDIT LYONNAIS

U.S.$ 300,000,000 Floating Rate Notes due 1995

In accordance with the provisions of the Notes, notice is hereby given that for the interest period from November 28, 1986 to May 29, 1987 the Notes will carry an Interest Rate of 6⅜% p.a.

The interest payable on the relevant interest payment date, May 29, 1987 against coupon n° 8 will be U.S.$ 319.13 per Note.

The Fiscal Agent
KREDIETBANK
S.A. LUXEMBOURGEOISE

TRONOH MINES MALAYSIA BERHAD
(Incorporated in Malaysia)
NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the Company will be held at 10.00 a.m. on 15th December 1986 at the PNB Theatrette, 2nd Floor Menara PNB, 201A Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia to consider and, if thought fit, to pass the following ordinary resolution:

Ordinary Resolution

That the Directors be and are hereby authorised to divest the Company's 4,062,631 ordinary shares of M$1.00 each to Aokam Tin Berhad by accepting the General Offer in cash extended by Bumiputra Merchant Bankers Berhad on behalf of Halimtan Sdn Bhd to acquire the said 4,062,631 ordinary shares at a price of $3.80 per share on the terms and conditions set out in the Offer Document dated 24th November 1986 issued by Bumiputra Merchant Bankers Berhad.

By order of the Board
WAN MOHAMED WAN YUSOF
AZLINA ABDUL AZIZ
Secretaries

Kuala Lumpur
25th November 1986

NOTES—
(i) A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
(ii) A form of proxy is enclosed and to be valid must reach the Malaysian Registrars' office at 32nd Floor, Menara PNB, 201A Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia or the United Kingdom Registrars' office at 6, Greencoat Place, London SW1P 1PL, not less than 48 hours before the meeting.

MELLON BANK N.A.

USD 250,000,000 Floating Rate Subordinated Capital Notes due November 1996

NOTICE IS HEREBY GIVEN that for the period November 28th, 1986 to February 27th, 1987 the Notes will carry an interest rate of 6¼ per cent p.a. Interest payable on February 27th, 1987 will be USD 789.93 per USD 50,000 Note.

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Appointments

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THE ARTS

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Arts Week

F	S	Su	M	Tu	W	Th
28	29	30	1	2	3	4

Exhibitions

BRUSSELS

Ingres and Delacroix – Drawings and Watercolours – Palais des Beaux Arts. Ends Dec 21.

Chinese Porcelain – the Transitional Period. Musée Royale d'Art et Histoire. Ends Dec 14.

PARIS

Esteve: After important exhibitions in Germany, Switzerland and Scandinavia, Paris in turn honours the abstract French artist born in 1904. The retrospective consists of 116 paintings, 50 watercolours, nearly as many drawings, some collages and tapestries and shows Esteve's development. Influenced at first by Cubism and fascinated by Cezanne, he continues obstinately on his own solitary road until he achieves an equilibrium between a rigorous composition and an explosion of colours. Grand Palais, Closed Tue, Ends Jan 12 (4256 0924).

Francois Boucher: the 86 paintings and 25 drawings of his first major retrospective re-create the pastel-coloured world he peopled with voluptuous goddesses and shepherds. Premier Peintre du Roi, a favourite and friend of Madame de Pompadour. Boucher personified the lighthearted charm and seduction of the Louis XVth Period. His pastoral and mythological scenes reproduced by engravings, tapestries and on Sèvres porcelain spread the influence of French court art all over Europe. Grand Palais, closed Tue, Ends Jan 5th (4289 5410).

Les Prix de Rome: The exhibition consists of paintings which won the much-coveted stay in Rome for the laureats from 1797 to 1863. The uplifting subjects from mythology or the Bible, the noble sentiments, melodramatic gestures and perfect workmanship crowned in the prestigious yearly competition provide a unique panorama of French academic art. Ecole Nationale des Beaux Arts, 11 Quai Malaquais, closed Tue, ends Dec 14. (4230 3457).

NETHERLANDS

Amsterdam Historical Museum. A collection of 19th-century French drawings and watercolours providing a cross-section of the styles and themes of the period, from the veneration of the Napoleonic legend to exotic Orientalism and the Italian picturesque. Ends Jan 4.

Laren, Singer Museum. Recent graphics by more than 100 Dutch artists. Ends Dec 14.

Amsterdam, Historical Museum. The Taste of the Elite focuses on Amsterdam's rich merchant class and its influence on art and culture as part of the celebration of the 16th century currently taking place in seven Dutch museums. Ends Dec 7.

Rotterdam, Rijksmuseum Land en Volkenkunde. In the Wake of the Liefde presents the intriguing story of cultural relations between Holland and Japan since 1600. Paintings, prints ceramics and furniture highlight the two centuries when the Dutch trading settlement at Deshima was the sole western outpost permitted by the shoguns. Ends Jan 4.

Amsterdam, Van Gogh Museum. Monet in Holland documents the Impressionist's visits to the country at three different stages in his career with 24 canvases painted in Zaandam, Amsterdam and the bulb fields, with related work by French and Dutch contemporaries. Fully illustrated English catalogue. Ends Jan 4.

ITALY

Venice: Palazzo Ducale: China In Venice: Chinese Civilisation from the Han Dynasty to Marco Polo (25–1279 AD): 150 objects, including silks, brocades, jewellery, terracotta figures, glass and porcelain lent by the Peking Museum. Many result from recent excavation, and most have never been out of China. The exhibition covers the main period of Chinese art, and the objects found in tombs, buried with the owner for his use in the hereafter, shed a fascinating light on life in the period. Ends March 1987.

WEST GERMANY

Tübingen, Kunsthalle Philosophenweg 76: Toulouse-Lautrec. A retrospective of 130 paintings and picture studies by Henri de Toulouse-Lautrec (1864-1901). Ends March 15.

SPAIN

Madrid: Julio Gonzalez (1876-1942), Spanish cubist sculptor considered with Picasso the top exponent of this movement; 50 sculptures and 70 drawings on loan by the Ivam, Valencia's modern art museum. Ends Dec 30. Also Miro sculptures (1893-1983): 100 sculptures and 140 drawings on loan by Moma, Georges Pompidou, Miro Foundation and private collections offer a vision of Miro's sculptures of 1930-1970 of which we know little in Spain. Ends Jan 20. Both at Centro de Arte Reina Sofia, Santa Isabel 2. Open Tue to Sun: 10.00-21.00. Closed Mondays.

Barcelona. Amos Cahan Collection. Spanish Art In New York. A total of 78 paintings by 35 Spanish artists of the 1950-1970 period who started two significant movements: Madrid's El Paso and Barcelona's Dau al Set. Among the painters are Tapies, Saura, Sempere, Zobel, Torner, Canogar, Mompo, Cuixart and Guinovart. On loan by Dr Amos Cahan, who has one of the top collections of Spanish contemporary art outside Spain. Caixa de Pensions, Plaza de Sant Jaume Cluixt 1. Ends Jan 20.

NEW YORK

Metropolitan Museum: 90 paintings from the end of Van Gogh's life are the focus of this second of a two-part show of the prolific artist at Saint-Remy and Auvers. The Starry Night and Cypresses come from this period working first in an asylum in Saint-Remy and then in Auvers, where he committed suicide in July 1890. Ends March 22.

Bravo Carnegie Hall: While Carnegie Hall is being renovated, the exhibition space at the Performing Arts Library at Lincoln Center honours the venerable venue with original architectural drawings and cutaway models along with a tribute to violinist Isaac Stern, president of Carnegie Hall, and memorabilia like the original programme of 1891 and other programme covers.

Whitney Museum: A retrospective of 168 of John Singer Sargent's paintings, watercolours and drawings provides the first major overview of the artist's work in 60 years, with many of his famous full-length portraits, and landscapes and informal drawings. Ends Jan 4.

WASHINGTON

National Gallery: Viennese Renaissance sculpture from the Kunsthistorisches Museum includes work by Bertoldo di Giovanni, Andrea Briosco, and Alessandro Vittoria. Ends Nov 30.

National Gallery: Henri Matisse: The Early Years in Nice 1916-1930, includes 170 paintings from the artist's life in the south of France, where the light made a permanent difference to his sense of colour. Ends March 29.

CHICAGO

Chicago Historical Society: Louis Sullivan, a seminal figure in American architecture, is celebrated in an exhibit in the city he made architecturally famous with newly made models of his buildings along with drawings, sketches and building fragments emphasising his use of ornament. Ends Dec 31.

Art Institute: The art of Italian Renaissance armourers, with suits embossed with Greek and Roman deities and fantastic creatures of the artists' imagination, is on display in a special exhibit of French king Henry II's armour borrowed from Hever Castle. Ends Mar 1.

TOKYO

El Greco: 50 oil paintings, part of the Matsukata collection. National Museum of Western Art, Ueno Park, one of Tokyo's few large parks. Several national museums and Tokyo's main concert hall (Tokyo Bunka Kaikan) are in the vicinity. A day's museum-hopping can be pleasantly divided by refreshment at one of the park restaurants. Ends Dec 14. Closed Mons.

Theatre

LONDON

Les Liaisons Dangereuses (Ambassadors): Christopher Hampton's masterly version of Laclos' epistolary novel is sexy, witty and wise, like a collaboration between Marivaux and de Sade. Howard Davies's sell-out pre-Revolutionary production for the RSC has moved from the Pit with Alan Rickman and Lindsay Duncan still battling and bitching over lovers and other riffraff. (836 6111, CC 836 1171).

Misalliance (Barbican): Rarely seen Shaw, and a much underrated play, given the full RSC works by John Caird, a Polish new woman crashing into the surrey conservatory in her monoplane. Jane Lapotaire sparkles alongside Brian Cox, Elizabeth Spriggs and newcomer Richard McCabe (628 8795, CC 638 8891).

Lend Me a Tenor (Globe): Ian Talbot leads the new cast in Ken Ludwig's fizzing comedy about backstage tribulations in Cleveland, Ohio, during a doomed 1932 tour of Verdi's Otello. A blight at the opera. (437 1592, CC 379 6433).

The Phantom of the Opera (Her Majesty's): Spectacular but emotionally nutritional new musical by Andrew Lloyd Webber emphasising the romance in Leroux's 1911 novel. Happens in a wonderful Paris Opera ambience designed by Maria Bjornson. Hal Prince's alert, affectionate production contains a superb central performance by Michael Crawford. A new, meritorious and palpable hit. (839 2244, CC 379 6131/240 7200).

Kafka's Dick (Royal Court): Alan Bennett resurrects Kafka as a tortoise in the living room of a contemporary dogsbody researcher, an insurance clerk like his hero. Brave, strange and funny play about biography hinging, in part, on the enlarged matter of a small member. (730 1745/1857).

Woman in Mind (Vaudeville): Alan Ayckbourn's new comedy has a brilliant performance by Julia McKenzie as a dissatisfied housewife visited on her own garden lawn by an imaginary ideal family. Bleak but funny, hailed in some quarters as vanguard feminist drama; be not put off by that. (836 9987/5645).

When We Are Married (Whitehall): Impeccable, joyous revival of an English comic war-horse now with a new cast, but Bill Fraser returning as the tipsy Falstaffian photographer. (930 7765, 839 4455, CC 379 6565/6433).

TOKYO

Takarazuka All-Girls' Revue. This phenomenon, the antithesis of Kabuki where all the roles are played by girls but with typical Japanese innocence and earnestness and totally un-camp, is a must for visitors. Takarazuka perform elaborately staged and skilled musical adaptations of both Japanese and Western plays – also revues and standard musicals. Highly improbable plots are more than compensated for by spectacular stagings and huge casts. Takarazuka provide another insight into the incongruous mosaic of Japanese culture. Detailed English summaries in the programme – in case the original story is altered beyond recognition. Takarazuka Theatre, near Ginza and main hotels. Afternoon and evening performances. (591 1711).

Dreamgirls: Michael Bennett's Broadway Tony and Grammy Award winning musical. The story of a 1960s female pop group, this is an original production brought to Tokyo by Isetan Department Store and Asahi Television as part of Isetan's centennial celebrations. Showa Womens College, Hitomi Memorial Hall, Sangenjaya.

NETHERLANDS

Amsterdam, Bellevue Theatre. English-Speaking Theatre of Amsterdam in Michael Frayn's Benefactors directed by Jill Shand (Tue to Thur). (247 288).

CHICAGO

Pump Boys and Dinettes (Apollo Center): Facetious look at country music and down-home country life with a good beat and some memorable songs, especially one played on kitchen utensils has proved to be a durable Chicago hit. (935 6100).

NEW YORK

Cats (Winter Garden): Still a sellout, Trevor Nunn's production of T.S. Eliot's children's poetry set to trendy music is visually startling and choreographically feline, but classic only in the sense of a rather staid and overblown idea of theatricality. (239 6262).

42nd Street (Majestic): An immodest celebration of the heyday of Broadway in the '30s incorporates gems from the original film like Shuffle Off To Buffalo with the appropriately brash and leggy hoofing by a large chorus line. (977 9020).

A Chorus Line (Shubert): The longest-running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions. (239 6200).

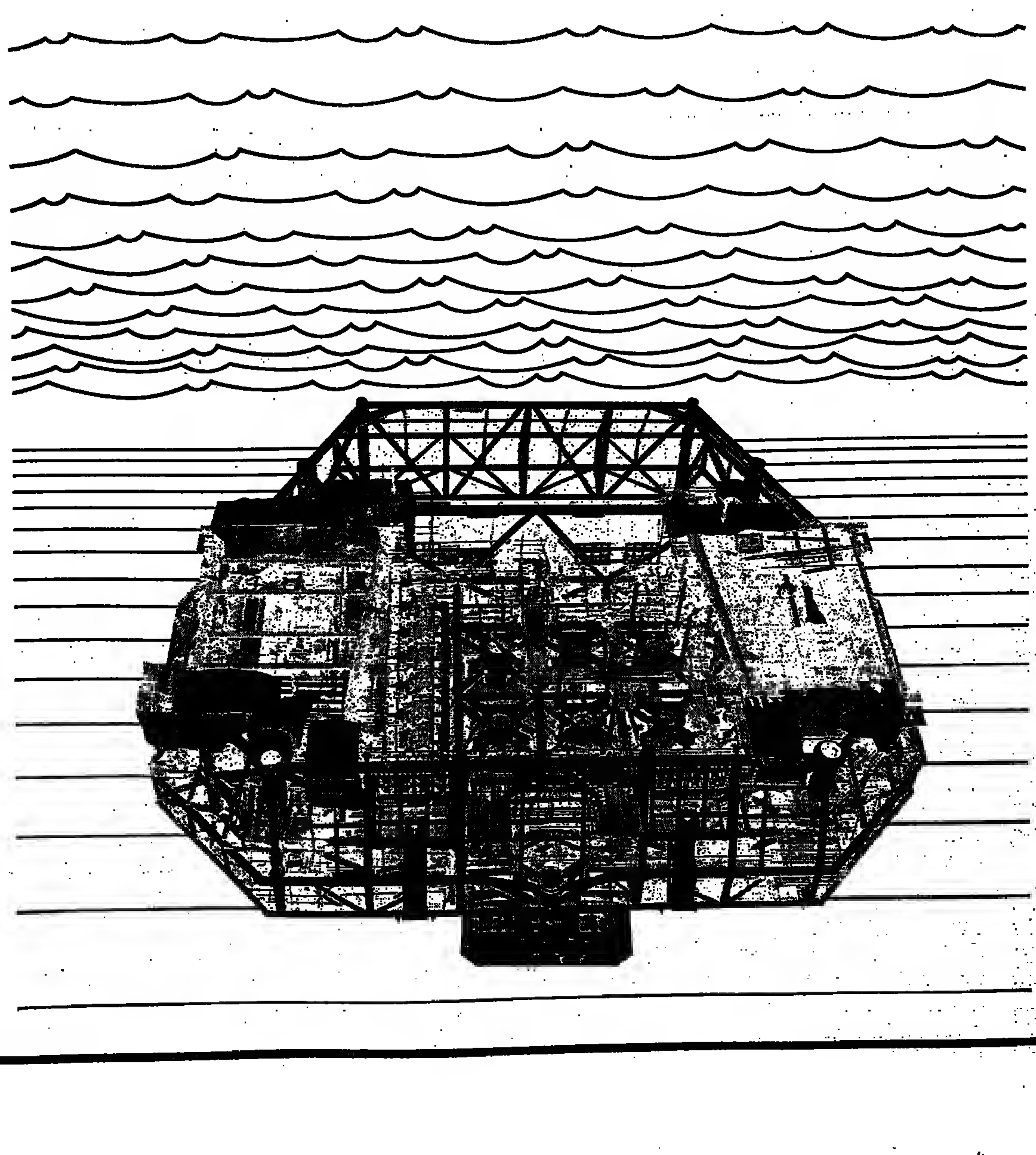
La Cage aux Folles (Palace): With some tuneful Jerry Herman songs, Harvey Fierstein's adaptation of the French film manages, barely, to capture the [illegible] and hilarious original between high-kicking and gaudy chorus numbers. (757 2626).

WASHINGTON

The Marriage of Bette & Boo (Arena): Christopher Durang's latest swipe at domestic life and marriage has an autobiographical air as it [illegible] three generations of a contemporary American family. James C. Nicola directs a cast headed by Casey Biggs, Donna Snow and Thomas Anthony Quinn. Ends Nov 23.

Continued on Page 19

The Scapa Field Development



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THE ARTS

Die Zauberflöte/Covent Garden

Max Loppert

The 1979 *Zauberflöte* limped back into Covent Garden on Wednesday. It was a performance of little stature or substance; almost the only interest to be bad lay in the attempt to analyse, while the hours ticked past, just bow and why it was proving so tamely unengaged, so rampantly superficial.

The employment of those hateful surtitles, which disseminate lines (especially spoken ones) not yet uttered by their character, which lepse into inaction for long, crucially significant passages, must have played an important role in the prevailing diffusion of concentration. The August Everding production, which spreads a layer of finicky Mozartian historical detail upon a base structure of kitsch and predictability, has itself a great deal to answer for (how much longer are we to suffer it in the Royal Opera repertory?). But, in tha end, the failure to communicate anything of burning importance must he said to lie with the main singers and conductor. It was quite a tidy revival, by house standards; bot of ensemble cobesiveness thera was hardly a trace.

There is such a drastic shortage of good German tenors, let alone tall, thin, handsome ones, that the desire to enjoy and admire Siegfried Jerusalem's Tamino struggled on well beyond the call of sense or reason. Mr Jerusalem is an untheatrical stick, with hardly a hint of arour, romance, or urgency in his expressive makeup: the texture of the voice remains full and warm, hut the phrases drag along sparkless, drained of energy. He was one of the three native German speakers new to their roles in London. The others were Jan-Hendrik Rootering, a bass apparently ont of his class es a Covent Garden Sarastro ("O Isis" so underpowered as to sound like "marking"); and Peter Haage as a roly-poly Monostatos, soft and savourless. Odd imports!

The dullness of Jonathan Summers' Papageno was sadder to contemplate, for we know what a vital singer and actor he can be, and this *Lumpen-Papageno*, all heavy double-takes and Merry Andrew gawps, would surely be set on the right lines in a real *Flute* production. The ample-voiced Karita Mattila also needs guidance: there's a potentially splcndid, indeed heroic Pamina to be prised out from beneath all the young Finnish soprano's persistent lapses of intonation (particularly noticeable in the "small notes" of the G minor aria). The American Sally Wolf, the new Queen, had a brave and musicianly shot at the music without cver convincing ma that it belonged to her voice. Good tcam of ladies led by Lorna Haywood; well-tuned trio of boys; unimpressive choral singing.

Peter Petcr Schneldcr, like *Messrs* Jerusalem and Haage a graduatc of the latest Bayreuth *Ring*, makes hcre his London dehut. The lingering phrasing of the alow introduction to the overture was the evening's first and last sign of personal musical stamp; for the rest Mr Schneider seemed content to keep the performance together—and this he did with reasonable competence—and to bustle it along where possible. If Mr Schneider has any powerful vision of tha opera to put across, it was not evident on Wednesday. The line of Royal Opera *Magic Flute* condnctors has not (with the shining exception of Colin Davis) been very distinguished. in recent seasons, and this latest addition does nothing to improve it.

Alastair Muir

Karita Mattila and Sigfried Jerusalem

Elektra/Geneva

Andrew Clark

If Andrei Serban's reputation as one of the mora promising of international operatic stage directors took a dent with the Covent Garden *Fidelio*, he has certainly made amends with his new production of *Elektra* at the Grand Théâtre in Geneva. Renewing a parnership with Gwyneth Jones that began two years ago with the London *Turandot*, Serban has neither fought shy of *Elektra's* savagery nor made a vulgar feast of it.

The visual atmosphere suggested by Yannis Kokkos's towering all-black set is of claustrophobic heat and pagan grandeur, like a labyrinthine pyramid - interior haunted hy carcass and carnage. It proved a receptive forum for Dame Gwyneth's hewitching display of stamina and stagecraft: where most other singers try to give 100 per cent, Dame Gwyneth succeeds in communicating 150 per cent in terms of energy and understanding.

Serban's elegant and musical stage direction brought out many virtues in the supporting cast, particularly in the statuesque Klytemnestra of Helga Dernesch, who is fully a match for Dame Gwyneth in terms of vocal acting, and whose rich and pure vocal instrument is far more reliebla in pitch. Alfred Muff, the most promising continental bass-baritone to embark on the Wagner and Strauss repertoire in recent years, sang Orestes with penetrating authority. Chrysothemis was sung by Deborah Polaski, a young American soprsno who is an aspiring Brunnhilde but who made a dull impresslon here. The Suisse Romande Orchestra under Friedemann Layer showed fidelity to the letter of the score.

Cinema/Nigel Andrews

Midnight blues in smoky dives

Round Midnight directed by Bertrand Tavernier
The Princess directed by Tony Gatlif
Critters directed by Stephen Herek
London Film Festival

Dexter Gordon in 'Round Midnight'

Tipped for the Golden Lion by most critics at this year's Venice Film Festival, Bertrand Tavernier's *Round Midnight* distinguished itself by winning absolutely nothing. A hung jury — and some people thought it should have been — resolved their differences about every film in the competition by giving top prize to Rohmer's *Le Rayon Vert*, mainly becanse it was most people's second favourite. Thus are "committee decisions" made.

Tavernier's magnificent mood-piece should surely have won. It dunks us into a night-binc 1950s Paris, whose main streetscape has been created in a studio by the great French art director Alexandre Trauner (*Les Enfants Du Paradis*). Hither comes ageing, alcoholic black American tenor sax Dale Turner (played by veteran jazzman Dexter Gordon): his mission, to play a series of smoky swansongs in the smoky jazz dives. Around this gentle, hoarse-voiced giant cluster other stars of syncopation, including Lonette McKee of *The Cotton Club*, and Herbie Hancock.

Though Tavernier fictionalises his setting and characters, a further twist is added to the movie's reality-illusion woof by its story being based on that of a real jazz giant of the past, Bud Powell. Like Powell, Tavernier's hero is befriended by a young French jazz fan (Francois Cluzet) who becomes the dying master's pal, nurse and confidant. They share a flat; they fight over the older man's secret whisky bottles and broken promises; they talk about jazz; they finally go to New York for a last-reel coda and separation.

There are only two flaws in the film's splendour, one entirely personal. I do not greatly enjoy jazz; it tends to suggest to me the sound of cats being subjected to unnecessary torture. Secondly, the young Frenchman comes over too often as a wet-behind-the-ears hero-worshipper and has the misfortune to resemble a French Dustin Hoffman.

But the film is powerfully elegaic, powerfully human, and superbly coloured in midnight blues and smokey greys and browns. Dexter Gordon's husky chivalry — he calls everyone "lady," regardless of sex — is rhymed with a carriage and gestural eloquence that are positively baroque. "When you have to explore something new every night," he says of his playing, in a line that becomes the film's credo, "even the most beautiful things can become the most painful."

In jazz, in short, beauty is pain, pain beanty. Jazz fans will glow in response to the plethora of soulful bebop numbers in Paris dives. Non-jazz fans will grin and bear them and happily wait for the human drama that wells np between. For a film about pain, there is also no shortage of humour. Choicest moment is when French entertainer Eddie Mitchell keels over at a har KO'd by a near-lethal cocktail. "Sil vous plait," groans Dexter Gordon sweetly to the harman. "I'll have the same."

*

It is a week for heroes baroquely on their beam-end. Tony Gatlif's French film *The Princess* — two years old and overdue for British release — sallies magnificently across France, relating a tale of gypsy life that resembles a cross between *Il Trovatore* and *Easy Rider*. Gatlif, himself born a gypsy, is not afraid to hang out a message or two; protesting through his persecuted characters about tha race's harassment and social ostracism as they are humped on from village to village, camp site to camp site. But he does not flatter them either. The hero (Gerard Darmon) is a moody roughneck, stringing along the roads with a ragamuffin daughter and a rascally old mum (Muse Dalbray) who leaves no profitable palm unread and from whom no plate of unattended *couscous* seen through an open restaurant window is safe.

Gatlif depicts a social world, ruled by nomadic penury, where genteel protocol and polite locution are outlawed. The immediacy of action and emotion that results is positively surreal. "You want air?" cries the hero to his mother in an early scene, when she is squatting in an abandoned flat — and he promptly takes the windows out. "Why don't you work?" asks his innocent daughter later —and he simply slaps her face.

Oncc they have set out on their journey, the camera storms along with them in tracking shots that imitate their rootless exultation. Though morally and temperamentally naar-insufferable — dishonest, filthy, rude and whenever possible violent — Gatlif's characters, even those on the story's fringes, also have a flair for the operatic magic of madness. A love-scorned derelict keeps crying "Madeleine!", dancing up and down a rusted railway line or standing stock still in a midnight waste-ground. And when Mum tells her grand-daughter a gypsy tale of the Creation, Gatlif sets the scene in a woodland lit like a stage set. As in the world of opera, anything goes, and in this film it goes at a terrific lick.

*

Critters is a dreadful sci-fi fantasy in which small furry creatures from outer space descend to earth to terrorise a Midwest family. Short of wit and void of wisdom, it plays like out-takes from *Gremlins*. Dee Wallace Stone (of *ET*) and Billy Green Bush head a cast who do not know what is hitting them, which is one common thing they have with the audience. I propose a sequel called *Critics*. In this, large furry film reviewers would ascend into outer space to take revenge on the creatures, or their families, responsible for this movie.

*

The London Film Festival packs its tent this weekend and steals away into the night. Large attendances and the event's extension into several West End cinemas have made it the highest-profile LFF in memory. Movie-wise, there has been something for everyone. In addition to the health-giving diet of international art films, we have gorged ourselves on Hollywood premieres like tha Streep-Nicholson comedy *Heartburn* and Francis Coppola's *Peggy Sue Got Married*. As well as nibbling at the world's best new cartoons and documentaries, we have wolfed down a slice of silent classic cinema with Erich Von Stroheim's *Greed*, haton'd into new life by Carl Davis.

All these riches serve to remind LFF complainers, once again, that you cannot have your cake and complain of indigestion. However, variety is one thing. Reckless over-abundance is another. It does not seem impossible that the festival's reputation for range and richness could be maintained without stuffing it with *quite* so many films.

This challenge will face festival director Derek Malcolm's successor next year, Sheila Whitaker. The problem with too many movies is that they blur the focus in which outstanding films, or groups of films, should be seen. This year's LFF had memorable contributions from Taiwan, Japan and America. (Films like Lizzie Borden's bitter-funny docudrama of brothel life *Working Girls* and Spike Lee's quadrilateral sex comedy *She's Gotta Have It* show an independent US movie sector bubbling with life, and refreshingly free of overzealous scissor-work by the censors). But it is hard for the unenlightened film fan, hacking his way through thickets of brochure blurb about the festival's 100-odd inferior movies, to find these clearings of light and sanity.

So two cheers for the way in which the London Film Festival has climbed into the public eye and into public cinemas in recent years. But the third cheer must be saved for a festival director who can combine sense with largesse, and bring discrimination to bear on the threat of elephantisis.

Pletnev/Wigmore Hall

Dominic Gill

Mikhail Pletnev won first prize in the same Chaikovsky Piano Competition in 1978 in which Nikolai Demidenko (whose South Bank recital I reviewed last week) won third prize. Both played in London in that year; and both returned, after an inexplicable absence of six years, to make second appearances this month within a week of each other.

Like Demidenko, Pletnev is a sensational young pianist. If I were forced to a comparison (largely meaningless at such a rarefied level) I should perhaps place him just a few points below Demidenko—for he is a slightly less mature and rounded artist, less exploratory, less original. Bnt his gifts are remarkable: e flawless physical technique, enormous strength, seamless concentration, a vivid sense of fantasy. Every aim of his recital on Wednesday night went uncrringly to its mark.

He opened his programme with Beethoven's little set of "Falstaff" variations op.73 delivered with almost perfect delicacy and poise, over the hroadest dynamic range in which nothing was hlurred, nothing skipped or fudged. The range was broader still in Brahm's F minor sonata: a huge orchestral canvas in which every smallest detail was hurnished bright. On the one hand, for its euergy and close focus, lt was one of the most original and compelling sccounts of the F minor sonata I have haard for many years; on the other, there was a relentlessness, verging on bombast.

Unlike Demidenko, whose sense of theatre is as keen as his sense of keyboard colour, Pletnev would not let his audience go for a second. His performance of three Rakhmaninov *Etudes Tableaux* had us up again, balanced on a knife edge, directly after the interval, taut as piano wire: a mesmerising virtuoso display that left us satisfied but faintly hattle-worn. His own arrangement for piano of music from Chaikovsky's *Nutcracker* was a delight.

Selling the Sizzle/Hampstead

Michael Coveney

Peter Gibbs, the TV playwright and former Derbyshire opening batsman, wrote a lively office comedy with an apocalyptic finale for the Bush last year; after *Rumblings*, we have sellings in a tatty wholesale warehouse, where Gift Shop produce — sacred hearts, cuddly pigs, plastic buckets and parrots — line the walls of Desmond's HQ, if not his pockets.

As is often the case with second stage plays, this one shows signs of self-conscious construction: Desmond is abandoned and thumped by a departing salesman in the first scene; enter an unemployed metallurgist, Malcolm, whose job prospects brighten at the sight of Desmond's daughter. He raises his game, transforms the company, seduces the daughter and is predictably worn down, rejected and dispatched on the mondane sales trail.

Robert Chetwyn's production is splendidly cast, with two outrageously idiosyncratic actors — Dinsdale Landen and David Threlfall — underplaying their hands and producing performances of tangible detail and accuracy. Landen's rumpled Desmond is s tawdry exccutive in odd socks, braccs and a kipper tia, reeking of Biros and baccy, who dlsappears behind a screen to deliver his pep talk in white tie and topper like a refugee from a Dennis Potter play. People are sold on the people who sell, not the product: "Sell the sizzle, not the steak."

Threlfall, as powerfully mesmeric when still as when neurotically thrashing about, is a recognisable opportunist, a divorced father of two whose past glory as a Latin American formation dancer has left him craving a new partner. The bait to bis industrious initiative is Caroline Bliss's sultry, incongruous Stephanie, a slinky luxury item on a cheap stall, e limited edition of one not to be sold on approval.

The family set-up is completed by a bouncily booted Ann Beach (fake leopard trimmings) as the compliant mother, but she is less happily welded into the action. Mr Gibbs's strongest writing is reserved for the boiling affair between Malcolm and the infuriating bespoke tease ("*Sometimes I'll want you*"); and the joyful inventory of kitsch trash on Sue Plummer's design, culminating in Desmond's ultimate bum steer of a hundred dozen official Vatican spicerecks, one of which glorious specimens is produced from a cardboard box like e rabbit out of his own hat.

Finding New Yorkers who don't read reviews

New York theatre producers are putting on plays they hope will be immune from critical comment because they will attract audiences regardless of what is written about them in the Press.

In the old days, we are to believe, most theatre goers made np their own minds and took a lively interest in disputing the conclusions of reviewers. Today, the infinence of reviewers is thought to be pervasive.

So, the only aolution—producers must assume—is to find andiences who don't read the reviews and can be lured hy the subject matter of their work. Precedents support tha producers assumption: among the few productions to survive bad reviews in recent years were *Grease*, which appealed to teenagers, and *The Wiz* and *The Tap Dance Kid* with black performers. *Singin' in the Rain*, thanks to its origins as a classic film, made the remarkable lesp over reviewers to reach tourists even before establishing a local andience, which is the usual pattern.

Children have suddenly been discovered as the most likely candidates to ignore bad reviews. Two musicals, *Raggedy Ann* and *A Little Like Magic*, have taken this innocent and presumably naive market segment to heart. *Raggedy Ann* (at the Nederlander) has already played in the Soviet Union as part of a cultural exchange and arrived in New York with everyone but children wondering what the Soviets got to sample as American culture.

A pastiche of *The Wizard of Oz* story, with visuals reminiscent of *Cats* and with children's television background music, *Raggedy Ann* would not even appeal directly to children. William Gibson, author of *The Miracle Worker*, has laced his book with irrelevant, unpleasant morbidity; Joe Raposo's music and lyrics are far too gcneric to be distinctive and Ivy Austin as thc title character is too cute even for children to believc.

A Little Like Magic at the Lyceum combines an appeal to children with an effort to get around critics rather than ignore them. Its phosphorescent characters floating on a dark stage rely heavily on translating familiar music into cute but not startling visuals. Ranging from Liberece to *Star Wars*, tha scenes, conceived and directed by Diane Lynn Dupny, are performed by a handicapped tronpe which one can hardly criticise except for letting themselves be used without demanding better material.

Southern fundamentalists and religious Catholics are appealed to in *Into the Light* (Neil Simon Theatre), a musical on, of all subjects, the Shroud of Turin. Dean Jones plays a hard-working scientist who has to settle nagging douhts about the shroud and so postpones his crucial Pentagon - sponsored research to test the shrond in Italy. There are apparently not enough of the requisite theatregoers at any given time in New York to keep such an enterprise afloat, despite John Forster's surprisingly clever lyrics with scientific vocahulary fighting Jeff Tambornino's lame—book about the family missing the scientist, as well as his quest for truth.

What is left of a devastating month for new productions is a surviving revival of *You Never Can Tell* at the Circle in tha Square. Notahle for Victor Garber's performance as Valentine Stephen Porter's production gets less mileage out of familiar figures like Amanda Plummer mugging too much as Dolly Clandon and Uta Hagen's flat Mrs Clandon in Shaw's early jab st the liberated woman.

Off Broadway at the Harold Clurman, Samnel Beckett's direction of his own *Krapp's Last Tape* emphasises the stark set, with a swinging light-bulb and a light to illuminate a mysterious back room, allows the echoes of Beckett's words to fill a human space which other interpreters often leavc too hare to brin gout. Rick Clnchey, whom Beckett met when the actor was serving a life sentence in San Quentin, has a boxer's mug of s face lbit hc moves it with thc suppleness of Silly Putty, further lightening a text depressing for its exploration of time wasted and contacts lost.

Frank Lipsius

Saleroom/Susan Moore

Overbeck over estimate

A group of German drawings by Nazerener artists attracted German dealers and astonishing prices in a sale of 19th and 20th century Continental drawings at Christie's yesterday.

Friederick Overbeck's precise pencil drawing for one of the ceiling frescoes in the Tasso room in the Cassino Massimo, Rome, begun in 1819, caused the greatest stir, selling for £68,200 against an estimate of £800-£1,200. It was bought by Hildegarde Fritz-Denneville, a German dealer based in London. When an Overbeck drawing last appeared at Christie's in June, it was bought in at £120.

Another surprise was a pen-and-wash drawing by Schnorr von Carolsfeld of Eliezer and Rebecca, an illustration for a bible of 240 woodcuts published in 1860. Estimated at £1,000-£1,500, it sold to an anonymous purchaser for £11,550. Substantial prices were also realised by two highly coloured watercolours by Adrian Ludwig Richter. *A Harvest Thanksgiving* of 1886 went for £38,500 (estimate £10-£15,000), its companion for £30,800. Richter watercolours are few and far between.

Favourable exchange rates have probably enticed Germans to buy in London this year. No such encouragement befell what was supposed to be the star lot of the auction, a sketchbook by the Maltese-born Amadeo, Count Preziosi. These 26 watercolour sketches of Turkish subjects were unsold at £24,000. The sale totalled £313,379, with 23 per cent bought in.

An anonymous German dealer also paid three times the estimate for the top lot in Sotheby's morning sale yesterday of continental printed books and manuscripts. One of the earliest printed Bibles, an extremely rare biblia pauperum of around 1460 belonging to the Duke of Northumberland, soared to £148,500. These picture bibles, printed from one block, were specially printed for illiterate, poor parishes. The catalogue suggests that the drawings for the woodcuts were executed by Roger van de Weyden.

The results of Christie's third successful Old Master sale in Italy over the past 18 months confirm that this market has picked up dramatically. In a sale on Wednesday evening a near-record price of £195,000 was realised by a tempera panel of *St Gerome in the Wilderness* by the Florentine artist Jacopo del Sellajo (1441-1493). A rustic scene by Francois Boucher nearly trebled its estimate by selling for £86,250. However, the proportion of lots unsold was high at 41 per cent.

Arts Week

Continued from Page 18

Opera and Ballet

NETHERLANDS

Amsterdam, Muziektheater: Netherlands Opera production of Der Kreidekreis by Alexander von Zemlinsky, directed by Herbert Wernicke. The Hague Philharmonic conducted by Stefan Soltesz, with Stella Kleindienst, Hebe Dijkstra, John Bröcheler and Mario Brell (Wed). (255 455).

Scheveningen, Circus Theatre: Ann Marie de Angelo and the American Dance Theatre (Wed). (55 88 00).

WEST GERMANY

Berlin, Deutsche Oper: Tannhäuser has Spas Wenkoff in the title role. Also Die Lustigen Weiber von Windsor.

Hamburg, Staatsoper: Manon Lescaut, conducted by Giuseppe Patanè, stars Mara Zampieri, Rachel Joselson and Franz Grundheber. Il Barbiere di Siviglia, sung in Italian, brings Rachel Joselson, John Dickie and Leo Nucci together.

Frankfurt, Opera: Das Rheingold has Julia Juon, Wolfgang Probst, Adalbert Waller and June Card. Die Verkaufte Braut is a well done repertoire performance with Eliane Coelho, Michael Pabst, Adalbert Waller and Christoph Pregardien.

Cologne, Opera: Moses und Aron, produced by Hans Neugebauer with Siegfried Haertel and Günter Neumann. Zar und Zimmermann has Ute Mariasen, Eva Hirzl, Eva Tamassy and Martin Finke. Hiroko Nishida is in the title role in Madame Butterfly. Hänsel und Gretel rounds off the week.

Stuttgart, Württembergisches Staatstheater: Madame Butterfly stars Awilda Verdejo, Helene Schneiderman and Wolfgang Schöne. Also Hänsel und Gretel with Irmgard Stadler, Helene Schneiderman, Regina Marheineke and Vilagro Vargas.

Munich, Bayerische Staatsoper: Cosi fan tutte has Pamela Coburn, Delores Ziegler, Julie Kaufmann and Theo Adam. Hänsel und Gretel in Herbert List's production with Helena Jungwirth, Angela Maria Blasi and Marjana Lipovsek.

LONDON

Royal Opera, Covent Garden: the new production of Jenufa by Yury Lyubimov, exaggerated but also intensely dramatic, starts Bernard Haitink's Covent Garden reign in high style. Ashley Putnam and Eva Randova are the stars. The Zauberflöte revival introduces Siegfried Jerusalem's Tamino and the conductor Peter Schneider to London.

English National Opera, Coliseum: the new Carmen is another collaboration from the ENO house team of David Pountney (producer) and Mark Elder (conductor), with Sally Burgess taking the title role for the first time. Also in repertory: the new production of Cav and Pag, over-detailed but bright and effective, with a moving Santuzza in Jane Eaglen; and the fine Graham Vick production of The Rape of Lucretia, with a uniformly strong cast led by Jean Rigby and Russell Smythe.

ITALY

Rome: Teatro dell'Opera: Don Pasquale conducted by Spiros Argiris includes Mariella Devia (alternating with Jenny Drivala) in the part of Norina, with Giuseppe Taddei, Paolo Barbacini and Angelo Romero. (47 17 55).

Florence: Teatro Comunale: Two Ballets: Carmina Burana, choreography by Peter Anastos, and Mishima by Lisa de Ribere in Ravel's Bolero, danced by the Maggio Musicale Fiorentino Ballet Company conducted by Michel Sasson.

Trieste: Teatro Verdi: The Flying Dutchman conducted and directed by Gustav Kuhn, includes Elisabeth Connell, Roland Bracht, Michael Pabst, Heinz Jurgen Demitz. Also a new production of Bellini's Norma by Mario Zanotto, with scenery based on Sanquirico's designs for the opera's first production (at La Scala in 1831). Katia Ricciarelli sings the title role, and also in the cast are Elena Zilio, Carlo Cosutta, Roberto Scandiuzzi and Ivana Turchese Colavito. Romano Gandolfi conducts. (631 948).

Bologna: Teatro Comunale: La Traviata, with the young Italian soprano, Cecilia Gasdia, as Violetta, American tenor Neil Wilson as Alfredo, and Paolo Coni as Germont Senior. The opera is conducted by Riccardo Chailly and directed by Jean Marie Simon. (22 29 99).

VIENNA

Staatsoper: Werther conducted by Davis with Baltsa; Lohengrin conducted by Guadagno with Yachmi, Ricciarelli; Walküre conducted by Schneider with Seegert, Marton, Hesse. (51 444/26 55).

Volksoper: Der Opernball; Die Csardasfürstin; Das Land des Lächelns (51 444/26 57).

NEW YORK

Metropolitan Opera (Opera House): The week features the premiere of Die Fledermaus conducted by Jeffrey Tate with Kiri Te Kanawa, Tatiana Troyanos and Otto Schenk in Otto Schenk's production, which marks the return of Johann Strauss's masterpiece after a 20-year absence. It joins the repertory of I Puritani conducted by Richard Bonynge in Sandro Sequi's production with Joan Sutherland, Salvatore Fisichella, Sherrill Milnes and Samuel Ramey; Romeo et Juliette conducted by Placido Domingo with Cecilia Gasdia; and Tosca conducted by Garcia Navarro in Franco Zeffirelli's production with Eva Marton, Placido Domingo and Italo Tajo. Lincoln Center (362 6000).

New York City Ballet (New York State Theater): The company's season continues with five weeks of The Nutcracker. Lincoln Center (870 5570).

WASHINGTON

Washington Opera (Opera House): Goya by Gian Carlo Menotti is performed by Placido Domingo, for whom it was written. Using historical fact and romantic fantasy, it recounts the affair between the painter and the Duchess of Alba, the model for the Maja portraits, played by Victoria Vergara, with Karen Hoffstodt as her rival, Queen Maria Luisa. Rafael Fruhbeck de Burgos conducts. The week also includes Il Matrimonio Segreto staged by Michael Hampe and the Cologne Opera with Carlos Feller as Geronimo and Janice Hall as Elisabetta. Arnold Oestman conducts. Kennedy Center (254 3770).

CHICAGO

Lyric Opera: The company premiere of Janacek's Katya Kabanova sung in English features Ellen Shade in the title role with her lover Boris played by Dennis Bailey and oppressive uncle Dikoy by William Wildermann, conducted by Bruno Bartoletti in Virginio Puecher's production. Un Ballo in Maschera is conducted by Giuseppe Patane in Sonja Frisell's production with Maria Chiara and Luciano Pavarotti. Edita Gruberova takes the title role and Neil Shicoff sings Edgardo in director Peter Seichenbach's production of Lucia di Lammermoor conducted by Charles Mackerras. (332 2244).

Music

VIENNA

Brno Philharmonic Orchestra: Beethoven. Musikverein (Mon).

Gwyneth Jones song recital with Geoffrey Parsons, piano. Schubert, Wagner, R. Strauss, Berg. Musikverein (Wed).

Musica Antiqua, Clemencic Consort led by Rene Clemencic. Musikverein (Thur).

NETHERLANDS

Rotterdam, De Doelen, Recital Hall: Fortune's Fire Lute Song Ensemble led by Carl Shavitz, lute, with Julian Pike, tenor, and Julia Hodgson, viola da gamba: Bartlett, Jones, Corkine, Greaves, Dowland, Ferrabosco (Mon). Concerto Rotterdam string ensemble conducted by Heinz Friesen, with Hans Roelofsen and Rudolf Senn, double bass: Bottesini, Dragonetti, Rossini (Tue). (414 29 11).

Utrecht, Vredenburg: The Hague Philharmonic conducted by Heinz Wallberg, with Zino Vinnikov, violin: Dvořák (Tue). (31 45 44).

The Netherlands Chamber Choir conducted by Peter Phillips with works by Philips, Byrd, Bull, Purcell. Mozes in 't Hagen, Oud-Katholieke Kerk, Tue in Amsterdam, Waalse Kerk (020-62 51 99).

Groningen, Oosterpoort: The Netherlands Wind Ensemble and the Netherlands Chamber Choir under Lucas Vis: Wagemans (Tue). (131044).

LONDON

Philharmonia Orchestra conducted by Bernard Haitink. Brahms. Royal Festival Hall (Mon). (928 3191).

Royal Philharmonic Orchestra conducted by Kurt Masur with Kyung Wha Chung, violin. Beethoven and Prokofiev. Royal Festival Hall (Tue).

BBC Symphony Orchestra conducted by Sir John Pritchard with Dmitri Alexeev, piano. Prokofiev and Shostakovich. Royal Festival Hall (Wed).

London Philharmonic conducted by Semyon Bychkov with Radu Lupu, piano. Panufnik, Mozart and Mendelssohn. Royal Festival Hall (Thur).

NEW YORK

New York Philharmonic (Avery Fisher Hall): Zubin Mehta conducting, Murray Perahia, piano. Beethoven, Bruckner (Thur). Lincoln Center (874 2424).

The New Bel Canto (Federal Hall): Shelly Hirsch performs a mixed repertoire, showing off a voice that ranges in sound from the Peking Opera to a broken radio, as part of the lunchtime concert series for the Wall Street area. (Mon, 12.15). (Wall & Nassau Sts. 289 0320).

WASHINGTON

National Symphony (Concert Hall): James Conlon conducting, Daniel Barenboim piano, Rudolf Firkusny piano. Beethoven, Stravinsky, Ravel (Tue); Charles Dutoit conducting, Florence Quivar mezzosoprano, Kenneth Riegel tenor, John Cheek bass, Terry Cook bass. All-Berlioz programme. Kennedy Center (254 3776).

CHICAGO

Chicago Symphony (Orchestra Hall): Erich Leinsdorf conducting, Dale Clevenger horn. Mozart, Hindemith, Mozart, Ravel, Chabrier (Thur). (435 8111).

TOKYO

Interlink Festival of Contemporary Music. Compositions by American composers Harvey Sollberger, Terry Riley, Lee Hoiby (Mon); Mario Davidovsky, Roger Reynolds, Harvey Sollberger, John Merby (Thurs). Asahi Hall, Mullion Bldg, Yurakucho, near Ginza (383 3151; 237 9990).

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The buck stops in Washington

AMERICA'S efforts to solve its own internal problems by promoting faster growth overseas are looking troubled. In West Germany the "five wise men" from the leading research institutes have called sharply in question the Kohl administration's economic optimism; they are predicting a disappointing 2 per cent growth in 1987 after a lacklustre 2½ per cent this year. In Japan, growth forecasts have been getting progressively more pessimistic. Economists are talking of a two-year "strong yen recession" comparable in scale with the downturns caused by the oil shocks of the 1970s.

The gloom may, of course, be overdone. It is possible that Mr Gerhard Stoltenberg is right to stick to his forecast of 3 per cent growth. Japan may bounce back faster than expected. The worrying thing, however, is that both economies have a deep-seated reliance on exports as a motor of growth. In Japan, for example, in the decade to 1984, GNP expanded by 55 per cent in real terms, while domestic demand grew by only 38 per cent. It is unrealistic to expect either economy to restructure itself overnight, although the US Treasury is clearly justified in demanding that both bring forward planned tax cuts and tax reform.

Urgent problems

Japan and West Germany both deserve credit for the fiscal consolidation they bave achieved since 1980-81; budget deficits have been reduced from around 4 per cent of GNP to well under 1 per cent. Their worries about demographic pressures putting long-term strains on pnblic finances are understandable, hut should not deflect attention from more urgent short-term problems — the threat of protectionism in the US, low growth and high unemployment.

The Japanese have begun to loosen fiscal policy, but not decisively enough, given the magnitude of the structural transformation of the economy that is needed. West Germany has made no concessions and welcomes the under-shooting of borrowing targets. Mr Kohl and his colleagues seem to think they are still tackling the economic problems of the 1970s — high inflation and uncontrolled welfare spending. It is time they woke up to the problems of the late 1980s.

Faster growth of domestic demand in Japan and Europe is desirable in its own right. It would also transmit an important psychological message to politicians on Capitol Hill: that the rest of the world understands the US dilemma and wants to help. Quite how much difference it would make to the US trade deficit is a matter of debate; Professor Martin Feldstein is surely being ultra-pessimistic when he claims that an extra 2 per cent of growth in the rest of the world for the next two years would raise US exports in 1989 by less than $15bn, or 10 per cent of the US trade deficit.

Largest debtor

But he is almost certainly right to argue that a further substantial devaluation of the dollar will be necessary. Wednesday's trade figures were disappointing: the revising up of the deficits for August and September casts doubt on claims that a decisive corner was turned in the third quarter.

How far the dollar might still need to fall is hard to judge. Morgan Guaranty, the US bank, has at least provided a definitive answer to the question: how far the dollar bas already fallen? It has constructed the first inflation-adjusted broad dollar index, which includes the currencies of 22 developing countries. The new Morgan index suggests that the dollar has fallen only 20 per cent from its peak in early 1985 and that it is between 9 and 15 per cent stronger than in 1980. Since then, the US bas become the largest debtor nation in the world and experienced a pronounced structural daterioration of its trede.

If the US were any other country, the international financial community, led by the IMF, would be pressing not just for a more realistic exchange rate but for an internal stabilisetion programma involving faster fiscal consolidation than is implied in the apparently flexihle Gramm Rudman targets. It is understandabla that other countries are reluctant to heed the US Treasury's advice when American citizens seem to have been shielded entirely from the consequences of past profligacy.

Key principle on teachers' pay

BRITAIN'S CHILDREN have nothing to gain by their school's remaining unsettled into yet another term by thetangled dispute c‹er teachers' pay and conditions. But the Government is wise to delay the threatened imposition of its own structure, and leave roo mfor further negotiations among the numerous unions and thelocal education authorities which directly employ the staff of state-maintained schools. MPs of most other political colours besides the Conservatives are increasingly keen that unions and authorities sbould agree to move closer to tha offer laid down by Mr Kenneth Baker, the Education Secretary. A voluntary agreement to the kinds of change hewants, however grudgingly it were given, would be better than their enforcement by law.

The Education Secretary is himself willing to compromise on certain issues to the counter-proposals already initialled by the English and Welsh local authorities and four of the six main unions representing schoolteachers south of the Border. He is ready to accept, for example, that the school staff should be required to be in post for rather fewer hours a year than he has previously prescrihed. Nevertheless, if the issue is to be resolved by agreement, the unions will have to give far greater ground.

Mr Baker appears determined to stand fast on two major points. One is that the settlement should not cost taxpares and ratepayers more than his original offer of an average increase of 16.4 per cent to the schoolteachers' salary hill, to be given in two stages — the first in January and the second in October. His objection to the counter-proposals is that they would cost £85m more.

More flexibility

His other sticking point is that the revised structure should provide much mor flexibility than prevails at present for higher salaries to be paid to selected teaching staff. These include teachers doing outstanding classroom work, staff undertaking managerial duties such as beads of departments, specialists in mathematics, physics, technology and design where adequate skills are in short supply, and those willing to work in deprived areas.

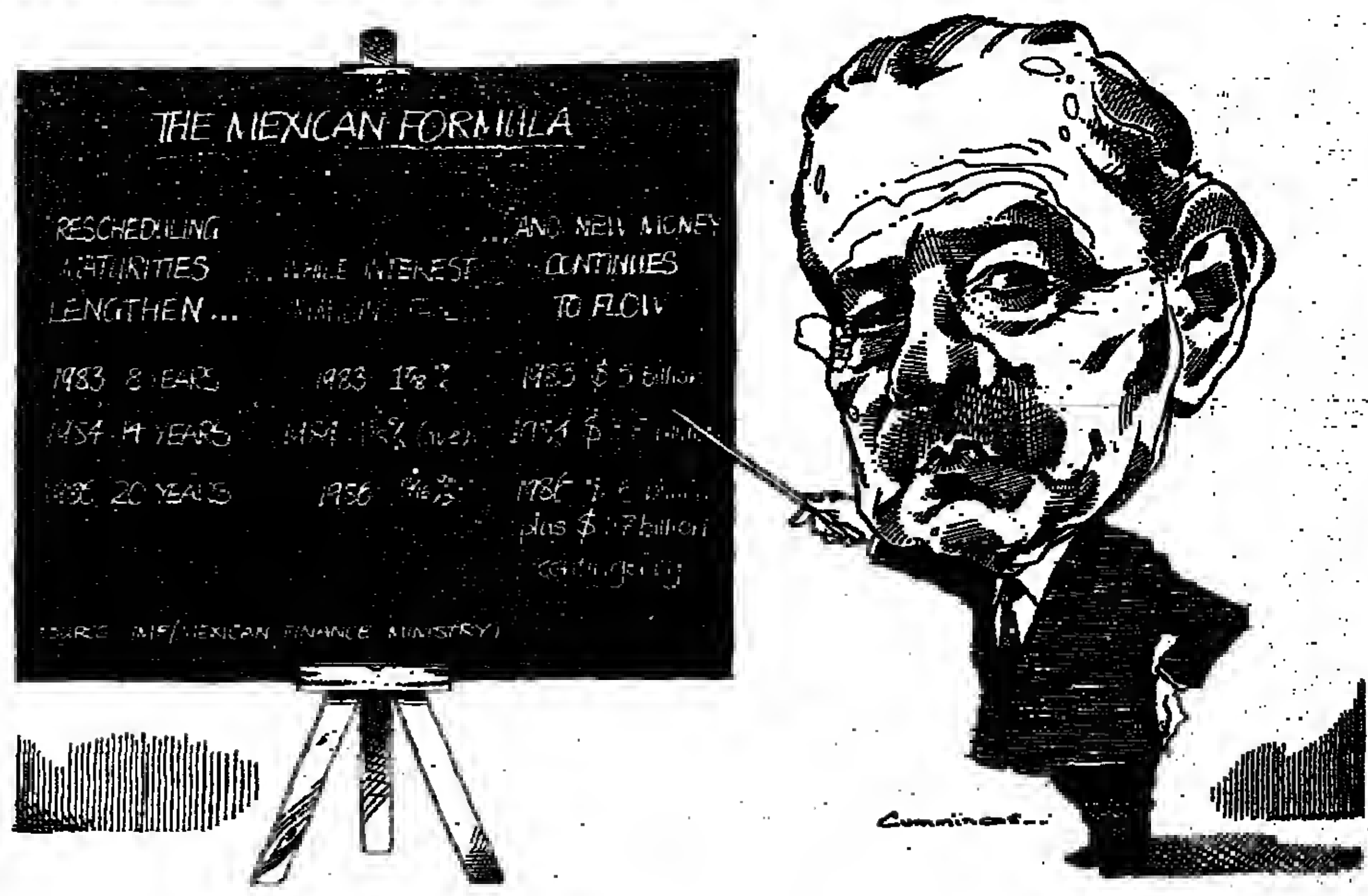
The Education Secretary wishes to see five levels of higher pay for staff in those categories, running from £900 to £4,800 extra a year. In secondary schools all five would be attainable. The first three, peaking et £2,800, would he available in most primary schools. About 140,000 of the approximately 400,000 teachers in state-maintained schools would be on one or other of th ehigher laveis of pay.

By contrast the unions' and local authorities' side allows for just two higher levels, respectively of £750 and £2,000 e year. Moreover the Education Department calculates that under the counter-proposals the number of teacbars receiving the extra pay would be only 80,000, a decrease from the 105,000 estimated to be already paid above the basic scale.

Additional measures

Mr Baker is right to stand fast on both issues. But the more important is the provision of far greater opportunities for school staff to earn increased rewards. There is no good reason why ednicational workers should not be subject, as are the great majority of their counterparts elsewhere, to the principle that those working better and harder, or having scarcer skills or being willing to work in more difficult circumstances, should ba paid appreciably more than the norm. Unless that principla is now inserted into the reward structure for scholteaching, the main point of the Government'a resistance to the unions' disruptive protests over several years will be lost.

Nor, despite the desirability of a negotiated settlement, should the Education Secretary be prepared to let the wrangling go on much longer. If the unions and local authorities have not agreed to make the concessions he requires by about February, be should use the power provided by the Bill to be introduced to parliament tomorrow and impose the changes he believes necessary. But in the interests of making the extra incentive pay work effectively, he would be wise to consider additional measures. The misgivings of many teachers about the extended incentives are centred on fears that school heads will award them, not on merit, hut to their personal favourites. Steps to allay those fears, such as tha strengthening of the schools inspectorate, could only improve the new structure's prospects of success.



Small comfort so far for Mr Baker

By Peter Montagnon, Euromarkets Correspondent

MR JAMES BAKER, US Treasury Secretary, has won the battle but not yet the war. That is the conclusion that the international banking community has drawn from news that Mexico's latest $77bn debt rescue package is now 90 per cent subscribed.

There were almost audible sighs of relief when commercial bank subscriptions hit this target level last week, prompting the International Monetary Fund to confirm its own SDR 1.4bn ($1.65bn) loan package for the government of President Miguel de la Madrid. After weeks of anxious nailbiting the show was suddenly and firmly back on the road.

The Mexican package was always regarded as a first key test of Mr Baker's famous plan to ease the developing world's debt problem — a plan which envisages a fresh infusion of commercial bank cash into the main developing countries, like Mexico, in return for which they would adopt growth-oriented economic adjustment policies to help them pay off their debts.

The Mexican deal involves rescheduling existing debt as well as $6bn in new loans and a further $1.7bn line of credit to be drawn if domestic economic growth or the price of oil fall below a certain level. For its part, Mexico has adopted an economic reform package that lays a new emphasis on long-term growth through structural reforms, such as privatisation of state industries and the opening up of the domestic market to foreign imports.

Paradoxically, however, the very fact that such a package has successfully been put in place underlines the difficulties that still lie ahead for Mr Baker's plan.

Even before the ink has dried on the deal, creditors have begun to back-track. They say the plan should not be regarded as a precedent for other countries, either as regards its terms or structure. This is small comfort for those who hoped that tha Baker Plan would galvanise commercial banks into a fresh lending effort. For the time being the stage seems set for a stand-off between creditors and debtors as they hunt for an answer to one central question: just bow far will tha Mexican approach be built into rescue schemes for other countries too?

In its latest review of tha Baker Plan the London-based banking research concern IBCA Banking Analysis says Mexico was ahla to obtain a larga new loan and concessions on its debt simply because its strategic importance to the US allowed it to "blackmail" creditors. There are few other countries with such political leverage and most debtors cannot count on such active support from the US administration.

This may be a cynical view but it is one which finds a wide echo elsewhere. "Mexico is almost a domestic US problem. You should think of them not as Latins but as Oklahomans," says one international official who has followed the dabt crisis closely The developing countries do not see it that way. Most of them are looking for terms and conditions that match the concessions won by Mexico.

Mr Jaime Ongpin, Philippines Finance Minister, is emphatic on this point: "I do not know of a single developing country that does not regard it (the Mexican deal) as a precedent." His bankers, however, are out to prove him wrong.

Rescheduling talks between Mr Ongpin and the Manufacturers Hanover-led committee of leeding creditor banks broke down in New York eerlier this month because the hanks could not agree to a revision of their offer to reschedule $8.6bn in debt over 16 years at an interest margin of 1⅞ per cent abova Eurocurrency interest rates. Mr Ongpin bad been holding out for Mexican terms — a 20 year maturity and a margin of 13/16 per cent.

The bitterness and acrimony which marked the occasion was not just between the banks and their customer, but between the banks themselves. For two of the banks, Citibank and Bank of Montreal, refusing to take the Mexican agreement as a precedent was e significant point of principle. Other banks on the committee were less dogmatic, but, said one, there is a general sense of unease over the idea of accepting the Mexican formula as standard.

Since then the situation has moved forward in a way that may weaken the debtors' case. Nigeria last weekend broke ranks and agreed terms on a $3.8bn rescheduling package that include a margin of 1½ per cent, well above that paid by Mexico. Meanwhile the IMF itself appears to be having second thoughts. It is now mounting an intarnal study on the desirability of incorporating the Mexican approach into its programmes for other debtors.

The Mexican deal broke important ground for the IMF. Not only did Mexico's loss of tax revenue from the collapse in oil prices lead the Fund to take a more relaxed view of that country's fiscal deficit than in the past; but for the first time, it directly acknowledged that a client country should be eligible for extra help from e range of creditors if its growth rata faltered, or if the price of a key commodity—in this case oil—collapsed. Built into the programme is contingency money for such an eventuality not only from the IMF itself but also from the World Bank and commercial banks who have been asked to hold an extra $1.7bn available.

Already at the IMF annual meeting in September Mr Jacques de Larosiere, outgoing managing director, warned that the Mexican agreement was not a precedent. Now bankers expect the Fund's internal review to lay the intellectual groundwork for refusing to extend such concessions to other countries. But if thet is so it will be a bitter political pill for hard-pressed debtors to swallow.

For many debtors the Mexican agreement, and indeed the whole Baker Plan, is e disappointment in one major respect. This is that it implies that debt service must be maintained et market rates that bave already cost them dear. The Inter - American Development Bank estimates that the net debt service cost to Latin America has already exceeded $100bn since the crisis broke in 1982. If now the banks are niggardly again, pressure may increase for solutions like that adopted by Peru, which is limiting debt service to 10 per cent of exports.

A more optimistic view of the present situation is espoused by some leading bankers such as Mr William Rhodes, who heads Citibank's restructuring committee and is e leading player in commercial bank debt renegotiations with Latin America. This school of thought argues that the main objective of tha past four years is still in sight. It is to bring tha debtors back to a situation where they can once again borrow normally on private financial markets.

Even supporters of this view admit that it will be well-nigh impossible to mount further rescua packages on the scale just seen for Mexico. But this need not matter much. Several more rescheduling packages are now looming, but none will actually involve large amounts of new money—and it may be possible even for some of that to be raised through voluntary loans.

These bankers argue that there are already signs of such lending resuming es the debtors adjust their economies, albeit on a very modest scale. Uruguay has signed a $45m co-financing loan under which financing is being provided jointly by commercial banks and the World Bank.

Now the biggest hopes are pinned on Brazil—for that country to return to the voluntary market would be a major sign that the crisis is ebating. With its large trade surpluses, diversified export markets and relatively high growth rate it has until now proved itself well eble to withstand the strains of the past two years.

For other countries the problem could be contained by limiting their request for fresh money loans. Argentina's requirement from the banks for 1986 and 1987 is now expected to be well below $1bn, significantly down on the originally estimeted total. Similarly Chila has been pruning back its needs. Mr Alfonzo Serrano, Central Bank vice-president said last week that Chile's commercial financing requirements for 1987-88 would be only $650m. Some of this amount might be covered by altering the terms on existing debt, for example by cutting interest margins and altering repayment schedules. The size of the actual new loan requirement would then be very low. It might even be raised on e voluntary basis.

There is, however, no real consensus in the banking community over whether such an approach is realistic. Opponents of the optimistic line argue that it is seriously flawed.

Speaking in Quito, Ecuador, late last week Mr de Larosiere said that lending by hanks to developing countries was still "well-short" of the $20bn over three years required under the Baker Plan. It is hard to imagine that changing in any significant way without official pressure.

Second, as the latest economic statistics show, Brazil has become an uncertain horse to back. Its trada surplus has fallen markedly as a consumer boom has sucked in imports, particularly of food. In October, the surplus fell to $210m, well below the previous monthly average of $800m. Foreign exchange reserves have also been falling rapidly with some Brazilian estimates putting the outflow as high as $1.4bn since the last official figures were published for July.

Against this background it is hard to see Brazil managing to attract substantial inflows of voluntary finance. Indeed, creditor banks are expected to redouble their efforts to persuade Brazil to adopt a new IMF economic adjustment programme as a result of the deterioration in the country's accounts. This could bring them on to a collision course with Mr Dilson Funaro, Finance Minister, who has nailed his colours firmly to the mast of non-involvement with the IMF.

From this it seems clear that the most likely prospect now is for a continuation of the old case-by-case approach, involving forced lending by the banking system to meet payments shortfalls in the borrowing countries. Given their difficulties with Mexico, banks will seek to keep the amounts of these loans to a bare minimum. In the light of its active involvement with both Mexico and Nigeria, the World Bank under its new President, Mr Barber Conable, is set to play a much larger role. Beyond that, however, the fate of the Mexican package has still left many questions unanswered about how such plans will actually be structured.

IBCA regards the Mexican deal as "clearly bad banking. If Mexico cannot service its present borrowings, how is it to service more?" It is already a bad credit risk, so why expect the banks to throw good money after bad?

Part of the answer, argues Mr Robin Monro-Davies, IBCA Managing Director is that, after four years of crisis, leading banks still have not set enough aside to cover their potential losses. Large banks in the three main lending countries—the US, Japan and UK—still have only small provisions ranging up to 10 per cent of their total exposure. They cannot cope with a situation where interest payments by a major debtor like Mexico are interrupted. For that reason they are now trying to shrug off their brief flirtation with interest relief that surfaced in the uncertainty and near despair that marked the height of the Mexican negotiations.

Yet many of these self-same banks are also now suffering from rescheduling fatigue. Somehow a way must be found to make fresh lending both palatable and manageable. The main problem facing the Mexican deal now is that there are still many small creditors who have to be brought in to the loan to make it fully subscribed.

In future deals it may simply be necessary to find another way out. One new idea being canvassed in the central banking community is that of so-called "exit bonds" under which smaller creditors could accept long-term zero-coupon paper in place of putting in new money.

Similarly converting debt into equity could also help. Chile expects to reduce its debt by $1.3bn to around $21.5bn with such a scheme this year. This involves selling the debt at a discount to investors in Chile's economy, who can redeem the debt at full face value in local currency to fund their investments.

Experience with the Baker Plan so far suggests there can be no quick fix, but Mexico's willingness to keep on paying its debt at market rates and the response of banks to its loan request has also shown that both sides are still concerned to back away from the brink. The hope is now that this will hold good for the long haul that lies ahead.

Men and Matters

Wisdom of the EEC

For those already convinced that tha budgetary affairs of the EEC periodically border on farce. I bring confirmation. For lovers of the inadvertent humour of long-suffering interpreters, another gem. (Remember "frozen semen" being translated as "matelots congelés" in the depths of an agricultural debate.)

When the European Parliament met the EEC budget ministers this week, the MEPs were determined to outdo the other side on the subject of budgetary discipline.

"We must have fiscal caution," Jean-Pierre Cot, chairman of the Parliament's budget committee, averred. Actions, he added, must be guided by "la prudence des Normands."

Back over the headphones, to the hilarity of British officials, came Cot's instantly translated advice as: "Our actions must be guided by Norman Wisdom."

"If only I could think of a subject that would get me prosecuted"

Round trip

While on the subject of Community affairs . . . British aviation minister, Michael Spicer, is off on his travels, trying to persuade other EEC member states of the need to be a little more liberal on air fares.

While his colleague, John Moore, stays in London to talk to the Spaniards and Danes, Spicer will fly to Portugal and Greece for meetings on the issue.

The only problem is that he wishes to fly from Lisbon to Athens on Thursday—and his Whitehall travel advisers have told him he will have to make the trip via London.

There is a direct flight that day between the two capitals. But it might be a bit undiplomatic to take it—since it is operated by South African Airways.

Roll on deregulation.

Chaplin's role

Judith Chaplin will have a chance soon to press more radical policies on the Chancellor of the Exchequer.

At present she reports to Nigel Lawson from Conservative Central Office, as head of the economic affairs section of the party's research department.

From January 1, Chaplin, 47, takes over as head of the Institute of Directors' policy unit, arriving in time to prepare the IOD's Budget representations.

In its manifesto proposals, published in October, the IOD was effectively challenging Mrs Thatcher to adopt a robust, right-wing strategy in the next election.

Chaplin, a former Norfolk county councillor, said yesterday: "The battle on behalf of business still has not been won decisively. It is difficult for politicians to get across that tax cuts are good for the economy as a whole and public spending cuts often denote government getting out of areas where it should not have been."

Her familiarity with Westminster and Whitehall will put her in a good position to continue the pet campaign of her new boss, Sir John Hoskyns, former head of the No 10 Policy Unit — namely the reform of government machinery. "Anyone who has worked on government-related matters shares his view that it needs reforming," she said without hesitation.

Red sunset

It is hard to make a comeback as a revolutionary student leader 18 years later. At least that is what Daniel Cohn Bendit—or Danny the Red as he became universally known—has been finding this week as French university students have again taken to the streets in protest against the right's education reform proposals.

Danny the Red received polite applause, but no more, when he addressed a meeting of students at Nanterre, one of the traditionally hotter seats of the Paris university scene, before yesterday's big demonstration outside the National Assembly. Students made it clear that they regarded the idol of the 1968 student movement as "a bit of a has-been" in the words of one young girl interviewed on television. "We don't need him. We can manage by ourselves quite well," added another before bottling off on a moped.

The reaction to Danny the Red reflects the profound change that has taken place in the student movement motivated, it seems, no longer so much by a need to express a certain ideology but by more mundane worries over their future employment.

But if the students have tried to amphasise the apolitical nature of their protest against the government reform, some are using it as a chance to give President Mitterrand a little boost in his difficult business of cohabiting with Jacques Chirac, the neo-Gaullist prime minister.

One of the more inspired slogans goes. "Tonton tiens bon, nous revenons," or "Tonton (President Mitterrand's popular nickname) hold on tight, we are coming back."

Viewpoint

More political fall-out from Italy's RAI Uno TV programme "Fantastico." A week after comedian Beppe Grillo outraged the Socialist Party with his unscripted jokes on the live broadcast, the programme carried a somewhat leaden sketch involving Ayatollah Khomeini and President Reagan.

The Ayatollah does not stint himself when it comes to showing displeasure. First came token strikes by Iranians working in Italy, then a diplomatic protest and then yesterday the closure of the Italian cultural office in Teheran and the withdrawal from Rome of the Iranian ambassador.

The Italian foreign ministry was close to despair yesterday in denying government responsibility.

Off-key

If you are currently having marital problems, you may learn something from the experience of Suleyman Guresci.

Computer News reports that Guresci spent six years battling in the Turkish courts to get a divorce. When the decree finally came through, he decided the best way to find a new mate would be through one of those computer dating services.

After sorting through the 2,000 candidates on the database, the computer came up with the ideal partner—Guresci's ex-wife.

Observer

When you have some idea of what's to come, you can act accordingly.

If only someone had warned Harold that William and his trusty bowmen were on the way.

Alas they didn't; and the rest is history.

Which makes you realise just how beneficial a little knowledge of the future can be.

So this month The Economist Publications are bringing out a new magazine called "The World in 1987".

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If Harold could have bought such a magazine in 1065, perhaps he wouldn't have bought it in 1066.

THE WORLD IN 1987

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POLITICS TODAY

'The service that never was'

By Malcolm Rutherford

Sir Robert Armstrong (left) and the late Sir Roger Hollis

WHAT IS Sir Bobert Armstrong, the British Cabinet Secretary, doing, alternately being no-balled and hit for six in an Australian court? And why do the British seem to have such a mania for spy stories?

The answer to the first question is actually quite simple. Sir Robert is trying to defend a principle: namely that people who work, or who have worked, for the British Secret Service should not disclose information. But there is a much more fundamental question lying behind it. It is about whether Britain wants or needs a secret service and, if it does, how it should be run.

It would be naive to assume — though meny people are naive — that the British Government went into the Australian court with its eyes closed, unaware of the potential banana skins and the possible embarrassment for Sir Robert. The decision to risk the ridicule for the sake of trying to defend the principle was taken in the knowledge that all sorts of bizarre stories and cartoons would come ent of the court hearings — as indeed they have.

Soma brief background may be in erder. The Government is trying te prevent the publication of a book by Mr Peter Wright who worked for the Secret Service from 1955 to 1976 and is now retired in Australia. It has already won a temporary injunction in the Court of Appeal in London restraining publication of extracts from the book by the Observer and the Guardian, pending the outcome of the Australian case.

Much of the content of Mr Wright'a disclosures has already been revealed in a book by Mr Chapman Pincher, the journalist, published in 1981 and called Their Trade is Treachery. Some of it has been discussed on Granada television programmes where Mr Wright appeared. Very broadly, the allegations are that the British Secret Service was penetrated from the top by the Soviet Union and, in particular, that Sir Roger Hollis, a former and now deceased head of MI 5, was a Soviet agent.

The allegations against Sir Reger have already been officially investigated and Mr Roy Jenkins, who was Home Secretary at the time of the inquiry, said in the House of Commons last week that he believes in the "strong probability of Sir Roger's innocence."

Mrs Thatcher who, so far as one can see, has no vested interest in the matter whatsoever since she was not in power when the inquiry was going on, has come to the same conclusion. But one never can tell, and Mr Pincher's book does make powerful reading.

Fascinating as the details are, however, they may be less important than the principle that members of the Secret Service should not talk out of school. In upholding the injunction against the Guardian and the Observer, Sir John Donaldson, the Master of the Rolls, referred to it in this way in the Court of Appeal on July 25 this year: "The unique character of the obligation of confidentiality which is implicit in the acceptance of appointment in the Security Service . . . It is a lifelong obligation, wholly unaffected by retirement."

Mrs Thatcher was making the same point in the House of Commons on Tuesday when she spoke of e "lifelong duty of confidentiality to the Crown . . . without which there could be no effective security service."

In othar words, if you let Mr Wright talk, there is an open invitation to anyone else to talk who wants to. The principle of confidentiality will bave been breached. The case in Australia is still worth fighting even if it is lost, because the alternative would bave been to have abdicated and done nothing—nr so tha argument goes.

Additional arguments for keeping the Secret Service silent have been put forward. The Master of the Rolls said in his ruling: "The intelligence and security services of friendly foreign countries with which the British Security Service is in liaison would be likely to lose confidence in its ability te protect classified information."

He went on: "The British Security Service depends upon the confidence and co-operation of other organisations and persons. That confidence would suffer serions damage", should information be revealed.

Sir John alse made it clear that ha was not just talking about highly sensitive issues or great affairs of state. "The obligation," he said, "extends to mundane matters which, in any other context, would have nn confidentiality. Thus it is the obligation of the Service to keep confidential the very fact that they are so employed, where they are employed and every aspect of their work. Their duty of confidentiality extends to making and keeping it 'the Service that never was'."

The point about "mundane matters" was elaborated later in the ruling when Sir John said: "Information which appears to be innocenus at a particular date or to a particular officer may at a later date become significant."

Having pondered all that, it is not unreasonable to concinde that the case for blanket, lifelong confidentiality has something to be said for it and that the Government had no choice but to try to make a stand in the courts, even if Mr Wright's allegations are eld hat.

But you cannot stop there. The questions of whether we need a secret service and how it should be supervised have to be faced, as they have not been publicly faced fer some time. We are talking about MI 5—the spy-catchers, not the other let, about whom Sir Bobert said in the Australian court: "What is MI 6?"

Most of the available information comes from Lord Denning'e report on the operation of the Security Service during the Profumo affair in 1963. "No one," he wrote, "can understand the role of the Security Service . . . unless he realises the cardinal principle that their operations are to be used fer one purpose, and one purpose only, the Defence of the Realm. They are not to be nsed so as to pry into any man'a private conduct, er business affairs: nr even into his political opinion, except in so far as they are subversive, that is, they would contemplate the overthrow of the Government by unlawful means.

"The Security Service in thia country," Lord Denning noted, "is not established by Statute nor is it recognised by Common Law. Even the Official Secrets Act does net acknowledge its existence. The members of tha service are, in the eyes of the law, nrdinary citizens with ne powers greater than anyone else."

Until 1952 the person primarily responsible for security was tha Prime Minister, along with the Minister of Defence. The system was then changed to give the main role to the Heme Secretary on the grounds that the functions of the Security Service are much more closely allied to those of the Heme Office, which has the ultimate constitutional responsibility for "defending the realm" against subversive activites and for preserving law and order.

That is more er less how it remains. The head of the Security Service is given a pretty free hand, provided that he acts within the law. He is responsible to the Home Secretary personally, though the Service is not part of the Heme Office, and can eeek e personal interview with the Prime Minister whenever he thinks it necessary.

Part of the 1952 directive to the bead of the service reads: "It is essential that the Security Service should be kept absolutely free from any political bias or influence and nething should be done that might lend colour to any suggestion that it is concerned with the interests of any particular section of the community, or with any other matter than the Defence of the Realm as a whole. . . .

"You and your staff will maintain tha well-established convention whereby Ministers do not concern themselves with the detailed infermation which may be ebtained by the Security Service in particular cases, but are furnished with such informatien only as may be necessary for tha determination of any issue on which guidance is sought."

In other words, it sounds like a typically British, ad hoc, arm's length approach, much like the arrangement that was supposed to exist between the Government and the BBC.

There is one peculiarity. All other government departments are obliged to place records with the Public Record Office with a view to ultimate public inspection under the 30-year rule. The Security Service has a dispensation.

It may well be asked if a directive issued in 1952 is the best way of running a secret service in the late 1980s. Indeed it is very important that the question should be asked out in the open.

Various suggestions have been put forward, none entirely satisfactory. One is that there should be a Select Committee of Privy Councillors to provide some scrutiny of what is going on. With the greatest respect to Parliament, it is hard not to see such a committee as a collection of pompous old buffers.

Another is that the judiciary should play more of a role, but supervising security is not the role that jndges are supposed to play. There is, after all, already a Security Commissien composed of eminent persons which investigates alleged failures or wrongdoings, though it does not receive mnch publicity.

However feeble, quite the best suggestien that I can come np with is that there should be a full debate about whether we need a secret service and, if so, what its terms of reference should be. I should like the answer to be "no," but fear it must be "yes." There is quite a lot of terrorism abont: the IRA, for example. It would be useful to see if there could be a new consensus on guidelines to pre-empt that sort ef threat without baving to investigate every citizen who may be opposed (say) to the deployment of cruise missiles. Somewbere a balance has to be struck between trying to stifle all potential subversiveness, some of which may be healthy, and doing nothing.

Spies and spy stories have become part of the British way ef life: something we are good at like middle distance running and nostalgia. It may still be worth having a service that tries to catch them, and sometimes succeeds. Philby, and even Hollis if be was guilty, were a long time ago, the product of a different generation.

Lombard

Hot air about Hotol

By Peter Marsh

SPACECRAFT that can escape from the atmospbere by taking off from ordinary runways are under study in both the US and Europe. Apart from giving astronauts the chance to glide into orbit with the comfort of airline passengers, the vehicles promise to reduce greatly the costs of going into spece.

Britain's scheme for a space-going aeroplane is called Hotol, short for Horizontal Take Off and Landing. The idea could form the basis of a joint European programme, under the auspices of the European Space Agency (ESA), to build the vehicle by early next century.

Some people, inclnding Mr Geoffrey Pattie, Britain'a industry minister responsible for space technology, bave suggested that Hotol is such a brilliant idea that Europe should consider jumping straight into the Hotol development, and miss out the planned next phase in its launcher programme, the construction of e mini space shuttle called Hermes, proposed by France.

To attempt this kind of technological leap looks, however, questionable. While other efforts over the past decade et promoting pan-European activities in areas such as computers and arms prodnction have foundered, Europe'a space programme has succeeded precisely because its aspirations have been realistic. The programme started in earnest in 1973, built around the Ariane project. This is a mainly French-built rocket which has meant Europe can put payloads into space independently of tha US.

Ariane, based unashamedly on 1960's technology, may look old fashioned but has proved effective. For the next three years, Ariane launches are fully booked, with many customers preferring the European launcher to anything available in the US. The position of Ariane has been strengthened by the problems in the US over the space shuttle, a much more up-to-date space vehicle.

Given the growing importance of putting people into orbit for jobs such as scientific experiments, the next logical step is to make Ariane capable of carrying men and women. This goal can be achieved by developing Hermes, a small, reusable vehicle with room for several passengers.

Hermes is not a launcher. It would be useless without e beefed-up Ariane to propel it into orbit. The scheme is therefore considered rather conservativa. Hence the thinking in Britain about diving straight into a new launcher, Hotol, without having Hermes as an intermediary.

It is a startingly good approach, for readers of boys' comics. The stretegy bas all the elements of the famous tilting-train saga.

Britain had the marvellous notion, it will be recalled, of building a brand new train which would tip on its bogies to take cornera at speed, so making possible bigh-speed railway services witbout relaying track. Sadly, the tilt mechanism failed to work and the project has been dumped.

France, meanwbile, got on with the jeb of developing a more powerful train based on conventional technology. At the same tima it straightened out a few railway lines. All boring and unexciting, perhaps, but the difference is that France is now receiving the benefits of fast rail services while Britain is still waiting.

Even the space shuttle, the most radical space vehicle so far, was the result of an evolutionary process. It was made possible by more than two decades of US experience in manned space flight, plus a series of programmes in rocket aeroplanes such as the X-15.

Another argument for rapidly develnping Hotol — advanced this week by the Adam Smith Institute—is that this would be good for national morale. This smacks of doing things which are in fact very bad for you—eating fat-filled school dinners for example—for the most bogus of reasons. When anyone advocates doing something on the basis that it will be good for morale, they should be regarded with suspicion.

Britain should be very careful before urging the rest of Europe to make the mistake of attempting to jump too quickly into what is (as the problems with the shuttle pregramme illustrate) an extremely tricky area of technology.

Britain's Future in Space, Adam Smith Institute, Box 316, London SW1P 2JH.

Letters to the Editor

Disinvestment in South Africa

From Mr R. Segal.

Sir, — Anthony Robinson (November 25) informs us that the Government of South Africa is "quietly delighted" by the sale of the Barclays banking business there. If the report is reliable, we must wonder why the South African Government has for so long and so loudly discouraged foreign disinvestment, to deprive itself of other occasions for quiet delight.

Barclays may well have sold cheaply, at current market calculations, its business to South African ownership. But it has also correspondingly reduced the interest that a British Government has in the flow of profits from apartheid. As the South African Government has, indeed quietly, always recognised, disinvestment is directly related to disengagement from political protection.

The Barclays deal has another dimension. Last year, the Anglo-American group of companies controlled some 54 per cent, by value, of all the shares quoted on the Johannesburg Stock Exchange. Such economic power has now been much augmented, along with the related political responsibility. How the group chooses to exercise this responsibility must affect both the pace and the nature of change. The ANC is bound to observe, more closely than ever, the course of Gavin Relly's interest in nourishing Zulu tribalism and advancing the cause of a "multi-racial oligarchy."

Ronald Segal.
Old Manor House, Manor Road, Walton-on-Thames, Surrey.

Lloyd's and overseas

From the Solicitor to the Corporation of Lloyd's

Sir,—I refer to your Legal Correspondent's article of November 13. In the second paragraph he queries certain Lloyd's procedures which apparently enabled misunderstandings to occur between insurer and reinsurer. These arose out of the operation of binding authorities which are now the subject of Lloyd's byelaw and regulation (both of which are mandatory) and a coda of practice which is designed to guide members of the Lloyd's community. These measures—which form part of the general programme of regulatory supervision of the market following the Lloyd's Act 1982—govern the substance and procedure relating to binding authorities and have reduced to the greatest extent possible the scope for misunderstanding of the type described.

In the light of the global dimensions of Lloyd's business Mr Hermann also asks why Lloyd's policies do not provide for the joining of all disputes in the hands of one judge, preferably in the commercial court in London. The answer to this is simple, namely that the availability of members of the Lloyd's community to be sued in foreign jurisdictions is a requirement imposed upon Lloyd's by foreign jurisdictions as a pre-condition to Lloyd's being permitted to operate (either by way of licensing arrangements or by the writing of surplus lines or the holding of trust funds) in those foreign jurisdictions. The practical ramifications of the imposition upon Lloyd's of such a requirement in circumstances involving a direct action statute, 45 separate insurers and a prolixity of insurance arrangements and documents lead not surprisingly to the cornucopia of litigation outlined in the article. If, however, Lloyd's is to do business in foreign jurisdictions it cannot disregard the express or implied requirements of those jurisdictions.

W. C. Beckett.
Lime Street, EC3.

Getting bills paid

From Mr M. Simons.

Sir,—References to slow payment of bills both in your feature and correspondence columns (article 19, letter November 24) indicates that small as well as large companies are suffering from late payment of invoices.

What your correspondents may not fully appreciate is that deliberate slow payment of accounts, viz a form of stealing from suppliers by not paying according to contractual arrangement, is due to several reasons. Constant pressure on food and other retailers to turn in ever better profits, and ambitious expansion schemes, encourages some of them to cock a snook at food and other manufacturers, knowing that retail buying clout makes it nigh impossible for suppliers to get adequate redress.

The increasing fashion of top management monitoring business sectors on a cash-flow basis means that the only ready way that line management can make good year-end cash-flow shortfalls is to delay payment of accounts.

Control of sales credit would be greatly improved if UK industry were to adopt the US/German method of requiring payment "X days" (normally 30 days) after date of invoice. Such a system allows ongoing monitoring of overdue payments, smooths cash-flow and reduces the unwillingness of customers to take goods towards month end. Settlements of accounts throughout each month would reduce the peaking of stocks and debtors at month and year end and reduce apparent asset gearing. It would also provide excellent opportunities for rationalising goods delivery leading to significant economies.

Martin E. Simons.
24 Granard Avenue, SW15.

The merits of direct mail

From Mr M. Rines.

Sir,—Direct mail is like the mother-in-law and the Irish—always good for an easy and unthinking joke. Those who, like Mr Loch McJannett and Mr Peter Tray (November 18 and 20) make fun of the medium do so in the face of common sense.

Direct mail is the fastest growing advertising medium, up 34 per cent this year. And in the business-to-business area, a leading mailing list supplier is showing an 18 per cent increase.

While some businesses may use direct mail ineptly—as happens with any other medium—they cannot all be stupid enough to pay large sums of money without being satisfied that they are getting a good return.

A considerable proportion of all forms of advertising is wasted and one might ask your correspondents what proportion of the advertisements in your illustrious journal they do not read and how many tons of pink pages they have pitched into their bins or used for lighting the fire.

It is indeed when it comes to waste that direct mail scores over all other forms of advertising, because although there will be occasional aberrations it is possible, with the help of modern computer technology, to target mailings with a very high degree of accuracy.

This is one of the main reasons why mail advertising is growing so strongly, the other reason being that the cost of second class mail has risen by only 13 per cent in five years, compared with a general inflation rate of 40 per cent, and much more for TV advertising, for instance.

Independent research among recipients of business direct mail shows that 86 per cent enjoy receiving direct mail and an even higher proportion have at some time responded to a mailing.

Perhaps your correspondents should have a look at what they receive in the mail a little more closely. Because most mailings are carefully targeted they would probably benefit from some of the information provided. And if their prejudices prevent them from using the medium in their own businesses it will be their competitors who have the biggest laugh.

Michael Rines,
Butterman's,
Broke Hall Park,
Nacton, Suffolk.

Volumes in a museum

From Mr P. Coones.

Sir,—I am sorry that Michael Thompson-Noel found Leningrad depressing and frustrating (Weekend FT, November 15). British visitors are perhaps unlikely to discover sun and fun in a city denounced by Nevill Forbes as "majestic, spacious, even beautiful, cold, sunless, tragic, mysterious, dank and gloomy." But what a treasure house Leningrad is for the appreciation of Russian (and European) history, geography and culture! I enjoyed a rewarding stay there during a characteristically grey November, combining Intourist excursions with forays on my own initiative (actively encouraged by Intourist and facilitated by the excellent transport system). The Intourist guides worked hard to please and were impressively knowledgeable, responding positively to any open-minded and genuinely interested party. (They were much better informed and often more flexible than many guides to places of interest in Britain.) Leningrad simply does not yield to the lightning tour or to the casual tourist keener on effortless amusement than on thinking and deepening his or her experience.

To assert that the Soviets are painstakingly restoring the palaces destroyed by the Germans merely to boost tourism is surely too cynical, especially in view of the paucity of guidebooks and souvenirs on sale there. Such a view also fails to take account of Soviet attitudes to the country's past. It is a sobering and revealing experience to visit the Museum of the History of Leningrad, in which the sufferings of the last war figure prominently. No guide took me there and "droned:" I sought the museum on my own, and the exhibits spoke volumes.

Paul Coones.
Hertford College, Oxford.

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FINANCIAL TIMES

Friday November 28 1986

AMERICAN APPRAISAL (UK) LIMITED
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MULTINATIONALS 'COMMITTED TO SOUTH AFRICAN PRESENCE'

Europe shuns disinvestment trend

BY STEPHANIE GRAY IN LONDON

"Far from being afraid of being cut off from the rest of the world, they (the Afrikaners) would actually welcome it. They prefer to consider themselves as a race apart." Sir Leslie Smith

MOST European multinational companies are committed to maintaining their operations in South Africa, despite increasing international condemnation of the republic's Government and the continuing disengagement of US companies.

One reason for this, says Dr Geoffrey Hamilton, author of a report entitled "European Multinationals in South Africa," published yesterday, is that the Europeans do not have the option of returning to a big enough home market.

Dr Hamilton points to the long history of European involvement in South Africa's economy – Europeans account for 80 per cent of all foreign investment – and different perceptions on the consequences of liberation for blacks.

Where the US experience saw enfranchisement of blacks as a positive factor, Europeans saw freedom for blacks as leading to a contraction of democracy – in the form of one-party states – rather than an expansion.

Furthermore, US investment in South Africa represented only 1 per cent of the country's worldwide investment. Britain's however, accounted for 10 per cent of all its overseas investment.

There were indications, Dr Hamilton said, that new opportunities for Europeans in South Africa were being opened up as a result of US companies winding down.

At the launch of the report, compiled last April and published by the Geneva based Institute for Research and Information on Multinationals which is funded by Nestlé, Sir Leslie Smith, chairman of the newly-formed British Industry Committee on South Africa (Bicsa), said there was no evidence that economic sanctions had ever worked.

Campaigners for disinvestment, Sir Leslie said, failed to understand the South African Government's total command of the country and the strength of its armed forces which would keep control, with enormous cost, for the foreseeable future. They also did not understand the "peculiar nature of the Afrikaner mind."

"Far from being afraid of being cut off from the rest of the world, they would actually welcome it. They prefer to consider themselves as a race apart."

Reflecting the views of many European company chairmen, Sir Leslie maintained that more could be done to dismantle apartheid by providing skills and purchasing power for blacks to ensure an economy that had to grow by 4 to 5 per cent a year to keep pace with the growth of the population.

The report, however, declares that many European companies which operate in South Africa admitted that their apolitical stance meant they were widely seen as being the silent partners of the regime, benefiting from apartheid and its cheap black labour system.

It was also recognised that widely publicised cases of European multinationals treating their black workers badly sustained this view. The companies want to do better, the report says, and they are to be doing so.

One way companies could do this was to "show a more concerned, vigorous and robust opposition to the apartheid system."

Their long-term commercial interest was to remain in South Africa and it was sensible that their present strategy should not jeopardise their future relations with the eventual black leaders – seen by the report's author as the current trade union leaders.

"The question is whether Europe's multinationals can adapt to this new situation and develop the organisation needed to project their strong moral condemnation of apartheid and their desire for change."

There are three reasons, the report says, why this European corporate response would be difficult to realise. First, the Europeans did not want to get involved in politics and many companies would interpret the "concerned, vigorous and robust" opposition to apartheid as being an unacceptable breach of the principle of non-interference in the political affairs of another country.

Second, it says that for a company to justify taking a more robust stand, it would have to perceive the current situation as posing a dangerous threat to its business operations. None of the companies interviewed by the author, however, believed that this stage had been reached or that it was likely to in the foreseeable future.

A third reason why there is little confidence that a more forceful European corporate response to the crisis in the country will emerge was that few companies could claim to have fostered any real involvement or participation by their black employees in the running of their South Africa subsidiaries. There was, as a consequence, almost total ignorance about the aspirations of their black employees.

The report suggests that the multinationals propose that their black workers play a formal role in ensuring that the company is complying with the EEC code of conduct, one that black trade unions have always dismissed because it provides them with no role in its implementation.

In a postscript to the report, Dr Hamilton says that the initial effect of US sanctions, imposed since the report was compiled, had been to draw the business community closer to the Government.

"This has clearly had the effect of dissipating some of the zeal of the business community for political reform," he says. "But it seems reasonable to predict that, when sanctions begin to bite, and the Government continues to remain opposed to making substantive policy changes, the priority of reform will re-emerge."

European Multinationals in South Africa published by Institute for Research and Information on Multinationals. 45-47 Rue de Lausanne, 1201 Geneva, Switzerland

Three freed in treason trial, Page 4

French make heavy work of lightweight coinage

By Paul Betts in Paris

MR Edouard Balladur, the French Finance and Economy Minister, has had to bow to a growing public outcry against France's new FFr 10 piece in nickel by ordering the Banque de France to suspend the introduction of the controversial coin.

Unlike the British £1 coin, the introduction of which led people to complain that it was too heavy and made holes in their pockets, the problem with the new French coin is that it is too small and too light.

Ever since the Banque de France started distributing the new coin at the end of last month to replace the larger and chunkier copper-coloured FFr 10 piece, many consumers have confused it for the 50 centimes nickel piece worth 20 times less.

Mr Balladur acknowledged yesterday in a statement that "there seems to be a serious risk of mistaking the new coin for the 50 centimes piece, especially for the elderly."

Indeed, the new coin has been causing turmoil in the already boisterous climate of Parisian street markets,w ith shoppers and stallholders squabbling more than usual over change.

Mr Balladur has now asked the central bank to halt for the time being distribution of the new coin. In the best pragmatic tradition of centralised French administration, he has also asked for a major review to be conducted in the affair.

The study is expected to be completed during the next three weeks. Its findings will help the minister decide whether the problems over the new coin are only temporary and will disappear when consumers become used to the new coin, or whether they are more lasting because of its similar size and appearance to the 50 centimes piece.

If the conclusions of the report are negative, Mr Balladur will be left with the difficult and costly dilemma of either doing away with the 50 centimes piece or with its new look-alike FFr 10 coin. The withdrawal of the 50 centimes piece would cost the government FFr 500m ($77m), while stopping the introduction of the new coin would cost FFr 100m, the Finance Ministry says.

Mr Balladur adds in his statement that at a time when economic rigour is the name of the game in France, it is difficult to envisage taking a decision on this issue without first analysing the problem in detail.

Ironically, the problem is not of the conservative Government's own making. The original decision to introduce the new coin was taken by the previous Socialist administration in September 1984. After the inevitable study by a working party, the former left-wing government decided that the new coin had to be lighter and less cumbersome than the old FFr 10 piece.

It also wanted a new coin which would be easier to use in coin machines and automatic tellers as well as one which would fit neatly in the existing range of French coins at the same time as enabling the upward extension of the range with new coins for higher values.

Background, Page 28

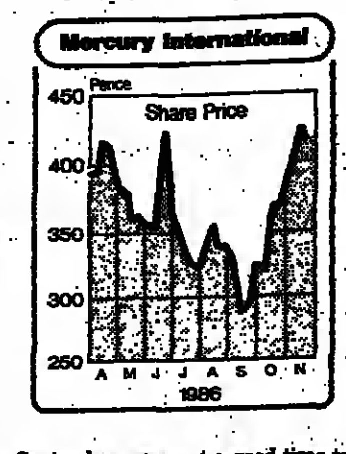
THE LEX COLUMN

Doing the Jardine shuffle

The coupling of Hongkong Land with Jardine Matheson – at one time distinguished by the unique "Bogie" system of equity-accounting their cross-holdings – is close to being finally unscrambled. Hard as it may be to credit (after the near catastrophe of being involved with South Africa, shipping, sugar, and Carrian) Jardine seems to be emerging with a strong balance sheet and a logical framework for its portfolio of investments.

The latest reshuffle is, in its way, just as complicated as the old cross-holding structure. That brought Jardine/Land to its knees, by loading the joint balance sheet with debt for the specific purpose of shrinking the equity base – a dodge which magnified shareholder returns in good times, but caused a financial implosion when things went wrong. The present manoeuvre will virtually complete the process of spinning out the assets into quoted form. When the Mandarin hotel is floated next spring, on the pattern successfully marked out by Dairy Farm, the new Jardine Strategic Holdings will be a pure holding company and Hongkong Land a pure property company.

Miraculous to relate, there will not be much debt in either company. Land actually comes out of the proposals with no direct stake in Jardine and prospective year-end gearing close to 35 per cent. The debt in Jardine Strategic is also being kept to a low level. That is half of the reason why Jardine Strategic is initially not taking on quite the complete Jardine Matheson portfolio of quoted stocks. The other half is JM's fear of ending up with over 50 per cent of the equity, thus doubling up on its own stock – and tumbling into a new sort of Bogie.



Mercury Int'l

The darkness which previously obscured Mercury International's interim figures – there were none, for public consumption – has rolled away. So has much of the mystery about how, and when, Warburg would distance itself from its turbulent investment arm, Mercury Asset Management: the figures are rather less than inspiring, and MAM is to be floated early next year.

In an altogether less favourable trading environment, Mercury has predictably had to fight harder for its profits in every form of fixed-interest market: the six months to September were not a good time to be holding inventories, and the £8.8m drop in pro-forma pre-tax profits says as much. Yet the major costs of girding Mercury for the new markets have been sunk in the inner reserves, and the profit figures relate entirely to a period before Big Bang.

What is now on show suggests that the market's instinct about Big Bang and merchant bank shares was sound: in the short term, the one is unlikely to be good for the other. Mercury itself goes out of its way to warn that there is rough weather ahead. Perhaps it is just a ruse to get rid of Mr Steinberg; probably not.

BPB Industries

Every set of figures from BPB Industries pleases the market. Yesterday's interims were worth 17p on the price the day before they were announced and another 25p yesterday, taking it to 548. It is hard to fault a company which can increase profits by over 50 per cent (from £46.0m to £69.3m in the half year to September) without a price increase in its main market in nearly two years. The trick is to have a huge plant, in East Leake, Notts, running flat out to satisfy an 8 per cent volume increase, with margins also helped by lower fuel costs. BPB's next plan must be to develop the gypsum mines and build a plant at Barrow-upon-Soar to meet further growth in demand.

Similar trading patterns are benefiting BPB's other operations. Paper and packaging is also saving on fuel and selling more while the mill acquired from the Thames Group in May added something under £1m to profits. Overseas, as well, everything seems to be going BPB's way. Only the odd corners like bitumen and wire logging are suffering. At this rate forecasts of £145m pre-tax (compared with £103.2m) for the year could once again prove conservative.

The concern must be that a post-election government could dampen building activity while a rise in oil prices would squeeze margins. The former should be mitigated at least by the increasing use of plasterboard within the market. Meanwhile fears about the EEC investigation of BPB's alleged unfair trading practices in plasterboard seem to have been greatly overdone. A prospective p/e around 11, and yield of perhaps 3 per cent, is hardly demanding for profits expanding far faster than the market.

Int'l Leisure

By forecasting "considerably higher" second half losses and full year figures "significantly ahead" of last year's International Leisure Group is giving itself quite a wide margin of error. At yesterday's price of 128p, down 2p on interim profits of £21.5m (£14.4m), the prospective p/e on the best outturn – £15m against £8.8m – is under eight. Investors, already confused by the peculiar economics of holiday companies, seem either to have little faith in ILG making it or just do not care much for such random earnings. The market has yet to be convinced that ILG's diversification strategy will produce more reliable profits. Even if tour-operating profits are only 30 per cent of next year's total, making some of the rest from airlines will hardly improve earnings quality.

BZW

The decision by Barclays de Zoete Wedd not to make a market in British Gas stock is most peculiar, particularly as the firm has been one of the most active market makers in the oil and gas sector since Big Bang. BZW claims it will be far too busy in its role as a regional co-ordinator of the issue. But it is not clear why acting as agency broker and offering specially low commissions of as little as £3 to myriad small investors should of itself impede the ability of its market makers to set a price and execute deals. If the problem is bureaucratic, as suggested, it sounds more like a case of systems under stress.

UK broker held in forgery, tax inquiry

By Alexander Nicoll in London and William Dawkins in Brussels

MR DEREK TULLETT, chairman of the London moneybroker Tullett & Tokyo Forex International, has been detained in Brussels as part of an investigation into income earned by the company's Belgian subsidiary.

Mr Tullett, 51, was arrested on November 7 after voluntarily agreeing to a request to go to Belgium to assist the judicial authorities in their enquiries. On Tuesday, he was refused bail after offering to put up what would have been a record amount in Belgium of BFr 25m ($610,000).

The investigation, which also involves a former head of the Belgian subsidiary and a local stockbroker with whom it had a partnership, is understood to turn on forgery and the use of forged documents in order to evade tax, as well as violation of book-keeping regulations under Belgium's Companies Act.

Tullett & Tokyo's Belgian solicitors, however, have advised it that neither Mr Tullett, the Belgian subsidiary, nor the stockbroking associate have been charged with any offences.

The moneybroker, in a statement yesterday, said that the Belgian subsidiary, Tullett & Tokyo (Belgium), and the stockbroker, Paul Laloy et Associes, had reached a settlement in June 1986 with the Belgian fiscal authorities over a tax liability arising from income generated by both firms in 1985. This liability was voluntarily disclosed to the authorities.

"Subsequently, the judicial authorities commenced an investigation into the circumstances in which this income was derived," the statement said.

Mr Silvio Salem, managing director of the Belgian subsidiary until early this year, is being held in connection with the same enquiries. Mr Paul Laloy, the stockbroker, was also detained in mid-October but is understood to have been released.

Under Belgian law, the authorities can hold detainees for one month after which their continued detention is at the discretion of the investigating magistrate.

Mr Laloy's association with Tullett & Tokyo dates back only to February this year. Foreign moneybrokers in Belgium must operate in conjunction with a local broker, and Mr Laloy took over the partnership when another stockbroker, Mr Patrick Loge, retired.

Tullett & Tokyo, one of seven brokers recognized by the Bank of England to deal in foreign exchange and currency deposits in London, said yesterday that its London operations were continuing to do business normally. It has kept the Bank of England informed of the events surrounding Mr Tullett's detention.

Tokyo Forex, a Japanese money broker, holds over 40 per cent of Tullet & Tokyo Forex International, and the remainder is held by directors and staff, with Mr Tullett himself holding over 10 per cent.

Australia unveils radical change to television station ownership

BY CHRIS SHERWELL IN SYDNEY

AUSTRALIA'S Labor Government has unveiled sweeping changes in policy on the ownership of television stations which will affect some of the country's biggest business empires.

The changes, agreed by the Cabinet this week and confirmed by the parliamentary party yesterday, are billed as the most radical reforms in Australian broadcasting since the introduction of television in 1956.

Under the new rules, individuals or groups will not be restricted in the number of television stations they can own, but will face a limit on the "reach" of these stations amounting to 75 per cent of Australia's 16m population.

The biggest immediate beneficiary is widely seen as Mr Kerry Packer, who controls Channel Nine in Sydney and in Melbourne, but owns no newspapers. Having been limited to some 43 per cent of the Australian audience, he can now expand.

But he is likely to face tough competition from smaller television entrepreneurs such as Mr Alan Bond and Mr Robert Holmes à Court, who have hitherto been limited to two stations in smaller centres and want to break into the business on a larger scale by making programmes as well as broadcasting them.

The existing limit prevents individuals or groups owning more than two television stations. But it also allows them to own newspapers as well as television or radio stations, whereas a key feature of the new rules is the end of "cross-ownership."

This means that no buyer will be allowed to purchase a new television station in a particular area if he already holds a near-monopoly in a newspaper or radio station

Existing cross-ownership arrangements, however, are exempt from the rule. Groups such as Fairfax, which owns Channel Seven in Sydney and several Sydney newspapers and the Herald and Weekly Times, which is in a similar position in Melbourne, will nevertheless face problems

Mercury to float off subsidiary

BY DAVID LASCELLES, BANKING CORRESPONDENT, IN LONDON

MERCURY International Group, the London investment banking group, is to float off its investment management arm, Mercury Asset Management (MAM), which controls more than £15bn ($21bn) of funds.

Mr David Scholey, the group's chairman, said yesterday that the move was being planned in order to emphasise the independence of MAM from Mercury's corporate finance and securities dealing operations and prevent conflicts of interest. The flotation would also raise additional capital for the Mercury Group.

Mercury intends to seek a stock exchange listing for MAM early next year. The group will retain a 75 per cent interest in MAM, and will offer the remaining 25 per cent to Mercury's existing shareholders. Any shares not taken up will be offered to other investors.

MAM has £15bn to £16bn under management, of which £12bn to £13bn is in pension funds, making it one of the UK's largest investment managers. It also has a small but growing unit trust business with about £1bn. The company employs over 300 people. Mr Scholey said it was too soon to put a value on MAM.

Although news of the flotation comes in the wake of insider trading scandals in the City of London, Mr Scholey said the plan had been under consideration for some time. He said Mercury was obsessive about its "Chinese walls" which prevented information about sensitive deals leaking from one department to another

Thatcher blocks discussion of spying case

Continued from Page 1

dicate the Government's doubts about such an innovation as the formation of a select committee, as suggested in the SDP/Liberal motion.

The argument has spilt over into House of Commons procedure, with Tory MPs alleging that Labour members have been abusing the system by using the cloak of parliamentary privilege to name people in Commons motions who have no right of reply.

The issue of such "early day motions" is, anyway, to be considered by the cross party procedure committee and yesterday Mr Bernard Weatherill, the House of Commons Speaker (chairman), said he would certainly give evidence to such an inquiry, which he hoped would proceed. He said "the tendency to name names" should be treated with "great caution."

As a final irony yesterday, Mr Dale Campbell-Savours, the Labour MP who has been one of the prime backbench movers in the affair, came top of the ballot for motions for debate on December 15.

At the hearing in Sydney yesterday the judge said: "It is difficult to avoid the conclusion that it is the firm resolve of Her Majesty's Government to permit the present proceedings to continue only in accordance with the rules it may from time to time lay down, and, further, not to accept the judgment of this court unless it be in its favour."

Mr Justice Powell, normally jovial and even-tempered, was giving his ruling on the British contention that be should not even see the documents at issue before deciding on a UK claim of "public interest immunity".

Britain is making this claim to avoid producing some of these papers. If the Government chooses today not to appeal against yesterday's decision, the judge will set a deadline for the documents to be produced in order that he can decide the claim.

Citizen Watch plans

Continued from Page 1

ernment was "very active" in providing incentives, it added.

Production by Citizen of computer printers, expected this year to be three times as high as in 1985, is currently 50,000-60,000 a month. About 90 per cent of the machines are exported to the US and Europe, where the company is working to build market share against established forces such as Brother and Epson.

Citizen's global sales this year are expected to be $132m, compared with $47m in 1983. The company claims a 5 per cent share of the world personal computer printer market, which absorbed 7.5m machines in 1985, and is growing at 10 to 15 per cent a year.

It also claims 8 per cent of the smaller, but faster-growing industrial printer market and almost a quarter of the world's trade in calculator printers.

Full-scale diversifiction into office equipment and other areas is a relatively new venture for Citizen.

Saturation of the world watch market, whre the company shares leadership with the Seiko brand, has forced it to build from its base in precision engineering.

In the past few years it has branched out into computer printers, ultra-thin floppy disk drives, liquid crystal television sets, machine tools and precision assembly machinery for products such as printed circuit boards.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	18	64	Dubrovnik	S	17	63	Malta	S	18	64	Rhodes	—	—	—
Algiers	C	16	61	Edinburgh	C	10	50	Manchester	C	9	48	Rio de J'o	C	36	96
Amsterdam	S	10	50	Faro	S	17	63	Manila	S	33	91	Rome	S	17	63
Athens	C	13	55	Florence	S	16	61	Melbourne	F	15	59	Salzburg	F	7	45
Bahrain	S	23	73	Frankfurt	S	8	46	Mexico City	C	22	72	San Francisco	S	6	43
Bangkok	S	31	88	Funchal	F	20	68	Miami	S	21	70	Seoul	S	3	37
Barcelona	S	15	58	Geneva	S	8	46	Milan	S	11	52	Singapore	S	26	79
Beirut	S	19	66	Gibraltar	F	17	63	Montreal	C	2	36	Stockholm	S	7	45
Belfast	C	10	50	Glasgow	C	10	50	Moscow	C	1	34	Strasbourg	C	8	46
Belgrade	C	7	45	Guernsey	F	11	52	Munich	F	8	46	Sydney	C	16	61
Berlin	C	8	46	Helsinki	C	6	43	Nairobi	F	24	75	Taipei	C	21	70
Biarritz	S	9	48	H. Kong	S	20	68	Naples	S	17	63	Tangier	S	19	66
Bombay	S	32	90	Innsbruck	F	7	45	Nassau	S	30	86	Tel Aviv	S	19	66
Bordeaux	S	9	48	Inverness	C	11	52	New Delhi	C	27	81	Tenerife	S	22	72
Brussels	S	9	48	Isle of Man	—	—	—	New York	S	17	63	Tokyo	C	10	50
Budapest	S	6	43	Istanbul	F	11	52	Nice	F	13	55	Toronto	F	1	34
B. Aires	R	28	82	Jakarta	R	31	88	Nicosia	S	21	70	Tunis	F	29	84
Cairo		25	77	Jersey	C	11	52	Oporto	S	14	57	Valencia	F	15	59
Cape Town	C	21	70	Jo'burg	F	26	79	Oslo	S	4	39	Venice	S	14	57
Caracas	C	25	77	Lima	C	22	72	Paris	S	10	50	Vienna	F	8	46
Casablanca	S	20	68	Lisbon	S	13	55	Peking	S	9	48	Warsaw	C	8	45
Chicago	C	-1	30	London	F	10	50	Prague	F	7	45	Washington	S	8	45
Cologne		8	46	Los Angeles	S	11	52	Reykjavik	Sn	4	35	Zurich	S	7	45
Copenhagen	F	8	46	Luxembourg	C	5	41								
Corfu		—	—	Madrid	S	10	50								
Dallas		—	—	Majorca	S	16	61								
Dublin		13	55	Malaga	S	18	64								

Readings at mid-day yesterday:
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

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SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Friday November 28 1986

Property Matters to
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BASF down 12% for nine months

BY DAVID MARSH IN LUDWIGSHAFEN

BASF, the large West German chemicals group, has reported a 12.7 per cent drop in pre-tax profits to DM 2.15bn ($1bn) in the first nine months of the year. It blamed the fall above all on the lower dollar and declining oil prices.

Mr Hans Albers, the chairman, said the company viewed 1986 results overall as good, however, and said that profits showed an improved trend in the third quarter.

BASF is at the centre of controversy over its release of two tonnes of weedkiller into the Rhine last Friday.

Although it has been criticised by the German Government and faces calls for tougher environmental restrictions, BASF defended itself against criticism that it failed to give the authorities early warning of the leak.

Mr Albers said BASF was doing all it could to minimise such accidental spillages and warned against any increase in "hostility" to big chemical groups. The incident follows a string of similar ecological accidents on the Rhine caused this month by Swiss and West German chemical groups.

BASF group turnover for the first nine months fell 5.7 per cent to DM 30.9bn compared with the same period of 1985. Group turnover for the whole year was likely to be down to DM 40.5bn against DM 44.4bn last year.

Because of the effect of the dollar decline on overall group figures, profit for the year would be down, he said. Last year BASF registered pre-tax earnings of DM 3.04bn.

Indicating a more favourable profits trend, however, Mr Albers said the third-quarter results showed an increase on the same period last year, the first year-on-year rise registered so far in 1986.

Group investments rose 14.5 per cent to DM 1.74bn in the first nine months. The figure for the whole year would grow to DM 2.8bn from DM 2.5bn in 1985.

Dresdner forecasts further progress

By Andrew Fisher in Frankfurt

DRESDNER BANK, the second biggest commercial bank in West Germany, reported a 10 per cent gain in profits in the first 10 months of 1986 and said total group earnings would again touch a record level for the full year.

The bank's group operating profit, which includes its earnings on own-account trading, will "clearly exceed" the DM 2.5bn (about $1bn at end-1985 rates) achieved last year, said Mr Wolfgang Röller, chairman.

Dresdner's partial operating profit (excluding own-account business) showed a 10.5 per cent gain in the January-October period compared with the same period of last year to DM 758m ($379m). The group figure in this period rose at a slightly higher rate, said Mr Röller.

Like the other main German banks – Deutsche Bank, the largest, reports next week – Dresdner has been benefiting this year from increased securities business.

Although growth has slowed down since the lively first half, Dresdner's commission income on securities business rose by around 16 per cent to DM 969m in the first 10 months. Its interest earnings rose by 4.5 per cent to DM 2.2bn.

Commerzbank, which reported its results earlier this week, also said profits were heading for a new peak, with its partial result up by 6.4 per cent and total parent bank profits set for a near 20 per cent gain.

Unlike Commerzbank, whose chairman Walter Seipp indicated that the dividend would rise this year from DM 8 to DM 9 a share, Mr Röller gave no hint of Dresdner's 1986 dividend policy. Last year, Dresdner's payout rose from DM 7.50 to DM 10.

Mr Röller said one of the most satisfactory aspects of this year's business was the sharp rise in savings deposits. At Dresdner, which has brought new savings plans on to the market, the volume of savings deposits rose by 19 per cent to just over DM 16bn.

But on the international front, the bank intended to make more provisions to cover debt risks. He said Dresdner would at least match the extra DM 1bn that it put aside for this purpose last year.

SMALL BANKS' TRAUMAS HIGHLIGHT DANGERS OF COMPETING WITH LARGER RIVALS

Muscle pays off for Canada's big six

BY BERNARD SIMON IN TORONTO

THE TRAUMATIC times through which Canada's banking industry has passed in the last 15 months were summed up in two separate announcements last week.

Toronto-Dominion Bank, one of the country's group of six strong and respected multinational banks, disclosed that it remains one of only two Northern American banks (the other is J. P. Morgan of New York) which enjoys a triple A rating from Moody's, the US credit rating agency. Across the continent in Vancouver, the troubled Bank of British Columbia announced that it is to be saved from collapse by Hongkong Bank of Canada, a wholly-owned subsidiary of Hongkong & Shanghai Banking Corporation.

The story of Canadian banking over the past year has been one of the strong getting stronger and the weak going to the wall.

Despite problems with energy loans and intensifying competition in international capital markets, the six big banks – Royal Bank of Canada, Bank of Montreal, Canadian Imperial Bank of Commerce, Bank of Nova Scotia, Toronto-Dominion, and National Bank of Canada – have consolidated their position as the linchpins of the country's financial markets.

On the other hand, no fewer than six small and medium-sized banks have disappeared since September 1985, when Canadian Commercial Bank (CCB) of Edmonton and Calgary-based Northland Bank became the first to fail in Canada since 1923. Of the 14 locally owned banks in business last year, only eight remain – the six big banks and two tiny western Canadian institutions.

All the regional banks spawned to counter the supposedly monolithic and insensitive institutions based in the prosperous industrial heartland of Ontario and Quebec have vanished. They became victims of their heavy exposure to the depressed western energy and property sectors, and their vulnerability to wholesale depositors made nervous by the demise of CCB and Northland.

Events of the past year have also strengthened a third group, the 55 foreign bank subsidiaries in Canada. Three of them – Lloyds bank, Security Pacific and now Hongkong & Shanghai – have bought locally controlled institutions. Lloyds' Canadian assets have jumped from C$490m to C$6.3bn (US$4.56bn). Hongkong Bank's acquisition of BBC will more than quadruple its asset base to over C$3bn and add 41 branches to the 12 it now has.

In addition, foreign banks can be expected to pick up some of the lucrative local authority and corporate business which was actively sought by the institutions which have gone under.

The big banks have always had unusual muscle in Canada. They control more than half the financial industry's asset and are the sole providers of financial services to about 750 communities in this vast country. The only possibly comparable institutions are the two biggest trust and loan companies, Canada Trust and Royal Trust.

But the impact of the crisis among small banks on the those that remain cannot be measured only in terms of asset growth or market share.

More important is a gradual change in public attitudes towards th big banks. Long viewed as insensitive corporate giants whose growth ought to be curbed, they are slowly coming to be viewed as a solid national resource which must be nurtured to keep abreast of rapid changes in the international banking system. Many municipalities – once tempted by high deposit rates offered by the smaller banks – now invest their funds as a matter of policy only with the biggest, strongest institutions.

Mr Tom Hockin, Federal Minister of State for Finance, said recently that a lasting impression of a visit to London last summer was the globalisation of the international banking industry. "We do not want to build an edifice that is going to be rendered obsolete because all the currents are going in the opposite direction", he said.

Only 18 months ago the Federal Government proposed that the banks should be given no new powers until the next review of the Bank Act, Scheduled for 1990. Now, Ottawa and the Ontario Provincial Government (which regulates the Toronto-based securities industry) are on the verge of allowing the banks to become players for the first time in the domestic securities business.

Banks have up to now been barred from underwriting and distributing corporate securities. But Bank of Nova Scotia set the ball of change rolling earlier this month by taking advantage of the lax regulatory climate in Quebec and a loophole in the Federal Bank Act to set up a full-service securities dealing subsidiary.

The Ontario Government is due to publish new rules within the next few weeks which will allow the banks to take an active part in the Toronto-Based securities industry. The authorities are under pressure to free the banks to buy full control of existing securities firms.

It should thus come as no surprise if some of Canada's best-known banks and securities firms join forces over the next few months in a bid to ensure their future prosperity in both the Canadian and global marketplaces.

Belgian bank shows 24.4% annual gain

BY WILLIAM DAWKINS IN BRUSSELS

BANQUE BRUXELLES Lambert, Belgium's second largest bank, yesterday unveiled a 24.4 per cent rise in annual net profits, representing a slight slowdown from the previous year's 39 per cent gain.

The group finished the 12 months to September with net profits of Bfr 2.69bn ($64m), as against Bfr 2.16bn in the preceding year. That performance partly reflects the benefit of the income from two rights issues totalling Bfr 6.26bn in January and June.

However, the growth in asset value has also been inhibited by a 22.6 per cent in the dollar's value over the same period, so that the balance sheet total climbed by just over 2 per cent from Bfr 1,489bn to Bfr 1,520bn.

Mr John Dils, the bank's president said yesterday that total asset value would have grown by 7 per cent during the year were it not for the dollar's weakness.

Customer deposits rose by 9 per cent to BFr 673.9bn, but private sector borrowing remained, as at the half-way stage, sluggish. Meanwhile, on-lending to other banks slipped by 11.4 per cent to BFr 589.4bn.

Operating profits were up strongly by 45 per cent to BFr 14.13bn. But a sharp increase in the tax bill, general provisions and depreciation from BFr 7.7bn to BFr 11.15bn eroded much of that improvement to bring the net profits advance back to 24.4 per cent.

The board is recommending a 5 per cent increase to BFr 105 in the net ordinary dividend, despite having increased the number of shares in issue by 27 per cent during the rights issues. The distribution on the two new classes of shares issued in 1983 as part of the government's tax incentives scheme will be BFr 186.46 and BFr 203.84, while new shareholders in the June rights issue will get BFr 26.25 pay-out.

A & P Tea Company buys Waldbaum chain

BY CHARLES HODGSON IN NEW YORK

THE GREAT Atlantic and Pacific Tea Company, once the leading US grocery chain, has agreed to acquire a controlling interest in Waldbaum, the New York-based supermarket group for $287m.

Under the deal, which marks a further step in the two-year recovery at A&P, a partnership formed by the company with members of the Waldbaum family will make a $50 a share tender offer for the 5.7m shares outstanding.

The offer is at a steep premium over Wednesday's closing price for Waldbaum shares of $28.50, up $5 before the announcement. The Waldbaum family has already tendered its 80 per cent holding to the new APW partnership for an estimated $158m.

Most of the financing for the acquisition will be provided by A&P, which will own a majority holding and act as managing partner. Waldbaum will continue under family management and retain its name.

Waldbaum, which has grown rapidly from its original six Brooklyn stores since going public in 1962, earned $17m last year on sales of $1.8bn. It is now the twelfth largest supermarket chain in the country, operating 140 stores

Agreement to sell PanCana

By Kenneth Marston in London

AMERICAN BARRICK Resources of Toronto, one of the top 10 gold producers in North America, has reached agreement in principle to acquire the gold-producing PanCana Minerals of Calgary, Alberta. Holders of the latter will receive 0.476 common shares of Barrick for each share in PanCana.

PanCana holds a 50 per cent interest in the Goldstrike mine in Nevada. The acquisition will raise Barrick's attributable gold production in 1987 to 245,000 oz from about 200,000 oz. In addition Barrick's new McDermott mine in Ontario is due to start up early in 1988 and will produce a further 100,000 oz of gold a year.

Degussa holds profit despite lower sales

By Our Financial Staff

DEGUSSA, the West German precious metals and chemicals group, announced yesterday that profits for last year had been broadly maintained.

Profits for the year ended September, 1986 had approached the DM 112m ($56.5m) after tax achieved for 1984-85, although sales had dipped by 7 per cent to DM 10.8bn.

Despite the fall in precious metals prices, turnover improved in the metals sector in the second half of last year by 1 per cent to DM 3.01bn. However, turnover for the whole year fell by 6 per cent to DM 5.81bn. Metals profits improved from the previous year, Degussa said, without giving any figures.

Turnover for chemicals fell by 7 per cent in the second half because of reduced export earnings but it was 0.4 per cent higher for the full year, rising to DM 2.92bn. Earnings did not reach the previous year's level.

Turnover for pharmaceuticals grew by 10.4 per cent in the full year to DM 224m. But the sector's results were depressed by the scheduled increase in research spending and the high cost of introducing new preparations to the market, Degussa said.

Degussa Corporation of the US clawed its way back to profit after last year's deficit.

Wah Kwong losses deepen

By Our Financial Staff

WAH KWONG, the failed Hong Kong shipowning group which a fortnight ago won creditors' agreement on a rescue plan, yesterday reported HK$63.3m (US$8.1m) in net losses for the six months to June bringing the cumulative deficit slightly higher to HK$2.38bn by the half-year.

Jamaica state-owned bank to be sold

BY CANUTE JAMES IN KINGSTON

JAMAICA'S state-owned National Commercial Bank, the island's largest, is being divested in what brokers say is the biggest offering on the stock exchange.

The divestment is part of the Government's programme to sell off state-owned economic enterprises. In the current offering, 51 per cent of the 60m shares in the bank are being sold for J$90m (US$16.36m), with the remainder to be offered in the middle of next year.

Mr Richard Downer, who heads a team overseeing the divestment of the bank, says safeguards have been built into the share offer to prevent it from falling into the hands of "big investors." No shareholder or group of shareholders will be allowed more than a 7½ per cent stake in the divested bank.

The government information service has launched an intensive campaign to get Jamaicans interested in buying the bank's shares, even a minimum block of 50 for the equivalent of US$36.00.

"In allotting shares we will give preference to the small investors," Mr Downer said. The shares are being offered only to Jamaicans

The NCB was created in 1977 when the local operations of Barclays Bank of Britain were bought by the Jamaican government and since then the bank has moved its market share from 22 per cent to 35 per cent to become the dominant force of the island's 10 commercial banks.

The NCB's net worth was put at J$87.2m at the end of 1985. From a loss of J$5m in 1977, the bank recorded a profit of J$38.12m last year.

At the end of last year the NCB reported holding deposits of J$1.8bn representing 37 per cent of the island's total commercial bank deposits. Its loan portfolio was valued at J$1.2bn representing 42 per cent of the total loan portfolio in the commercial banking sector.

Mr Edward Seaga, Jamaica's prime minister and finance minister, who earlier said his administration was committed to divesting state-owned economic enterprises, said the offering of the NCB shares is intended to transfer ownership from government to the private sector "in a firm and conclusive manner."

The divestment of the bank, however, has sparked political controversy, with the opposition People's National Party saying that no more than 49 per cent of it should be divested. The PNP, which was in office when the Barclays operations were nationalised, has suggested that it will renationalise the bank if it wins the next election.

In reaction to the PNP's objections, Mr Seaga said: "The broad ownership of the bank will make it virtually impossible for any government to renationalise it."

CITY Federal Savings Bank
U.S. $75,000,000
Collateralized Floating Rate Notes Due 1993
Notice is hereby given that the Rate of Interest has been fixed at 6·175% p.a. and that the interest payable on the relevant Interest Payment Date, February 27, 1987 against Coupon No. 2 in respect of U.S.$25,000 nominal of the Notes will be U.S.$390·23.
November 28, 1986, London
By: Citibank, N.A. (CSSI Dept.), Agent Bank CITIBANK

KLEINWORT, BENSON, LONSDALE plc
US $100,000,000
Primary Capital
Undated Floating Rate Notes
US $125,000,000
Primary Capital
Undated Floating Rate Notes (Series Two)
For the interest period 28th November 1986 to 29th May 1987, all the above Notes will carry a Rate of Interest of 6⅝% per cent. per annum with a Coupon Amount of US $325·45.
CHEMICAL BANK INTERNATIONAL LIMITED
Agent Bank

DFC Overseas Investments Limited
Cayman Islands Branch
U.S. $100,000,000
Guaranteed Undated Primary Capital Floating Rate Notes
Guaranteed by
Development Finance Corporation of New Zealand
dfc
Notice is hereby given that the Rate of Interest has been fixed at 6⅜% p.a. and that the interest payable on the relevant Interest Payment Date, May 29, 1987 against Coupon No. 2 in respect of U.S.$10,000 nominal of the Notes will be U.S.$319·13 and in respect of U.S.$250,000 nominal of the Notes will be U.S.$7,978·30.
November 28, 1986, London
By: Citibank, N.A. (CSSI Dept.), Agent Bank CITIBANK

MAFINA B.V.
Notice
to the Holders of Bonds of the issue
4¾% 1973/1988 of U.S. Doll. 75,000,000.-
Notice is hereby given to the holders of bonds that the 4th annual instalment of bonds amounting to U.S.7,680,000 has been purchased for redemption on January 1, 1987 and that consequently no drawing by lot will take place.
Amount outstanding on January 1, 1987: U.S.$30,720,000.
By BANQUE INTERNATIONALE A LUXEMBOURG
Société Anonyme
Luxembourg, November 28, 1986


BORD GÁIS ÉIREANN
IRISH GAS
The Irish Gas Board is the State Gas development Agency. Its function is to buy, sell, transmit and distribute natural gas in Ireland.
The following is an extract from the Chairman's Report (and Accounts) to the Tanaiste and Minister for Energy for 1985.
Summary of Results 1985
Sales IR£197 million up 10%
Profit IR£94 million up 16%
Dividend to State IR£84 million up 18%
Capital Expenditure IR£14 million up IR£3m.
Copies of the Annual report may be had from
The Secretary–Irish Gas, Inchera, Little Island, Co. Cork. Tel: (021) 509199/533621.

INTL. COMPANIES AND FINANCE

Anglo American lifts interim earnings by 27%

BY JIM JONES IN JOHANNESBURG

ANGLO AMERICAN, South Africa's largest mining and industrial group, increased its interim pre-tax profits by 27 per cent principally because of higher foreign earnings.

Investment income rose to R400m in the six months to September 30 1986 and, as a result, the group's pre-tax profits rose to R678m ($157.6m) from R534m. Investment income totalled R752m in the year to March 31 1986 and the pre-tax profit was R1.30bn.

Mr Gavin Relly, chairman, said that the increase in the investment income was largely due to higher dividends from gold mines which benefited from a 22 per cent increase in the rand price of gold. During the six months the gold price expressed in South African currency averaged R758 an ounce against R622 an ounce in the corresponding six months of 1985.

At the start of 1987 the group merged its four Orange Free State gold mines and is engaged in comprehensive gold exploration and drilling in both the Orange Free State and Transvaal provinces.

Mr Relly added that the group's platinum, diamond and ferro-alloy interests also contributed to the increase in investment income. Anglo controls Rustenburg Platinum, the world's largest platinum mining company, directly and indirectly through Johannesburg Consolidated Investment (JCI), the mining house, and controls De Beers, the diamond company, through a complex of cross shareholdings.

In contrast to the precious metals and diamond interests, Amcoal, the group's coal arm, was more pedestrian. It is the major contributor to trading income, which rose by only 5 per cent at the half-way stage to R235m.

Amcoal's trading growth has been slowed by stagnant demand for coal in export markets and weak demand from Escom, South Africa's state-owned electricity utility, which buys about two thirds of Amcoal's annual coal production.

The first half's attributable earnings rose to 178 cents a share from 140 cents and the interim dividend has been increased to 62.5 cents from 50 cents.

The last financial year's earnings totalled 356 cents a share, from which a total dividend of 180 cents was paid. On September 30 the net asset value of the group was R93.89 a share against R70.87 on March 31, the end of the last financial year. At the close of trading on the Johannesburg Stock Exchange yesterday Anglo's shares were priced at R87.50.

● Increased interim dividends are declared by the gold companies in South Africa's Anglovaal group, writes Kenneth Marston in London. Hartebeestfontein is raising its payment to 80 cents from 45 cents a year ago; that of Zandpan goes up to 10 cents from 7.5 cents; Eastern Transvaal Consolidated to 125 cents from 100 cents.

The group's mining finance company, Middle Witwatersrand (Western Areas), is paying 60 cents against 55 cents.

● Mr D. T. Watt, chairman of Rand Mines, says in his annual report that it has "under active consideration" a plan to set up a new gold mine in the eastern Transvaal where it and Anglo American have jointly held precious metal claims.

Allied Stores hit by bid costs

By Our New York Staff

ALLIED STORES, the fourth largest US stores group, suffered a heavy third-quarter loss because of expenses arising from tender offers linked to recent lengthy takeover struggles.

The New York-based retailer recorded a $84.2m net loss after pre-tax expenses of $187m relating to tender offers for the company's common stock.

Earlier this month the group surrendered to Campeau, the Canadian real estate group, after a bitter two-month takeover battle, in a deal worth $3.65bn.

The $1.79 a share loss compares with a $22.8m, or 54 cents a share, net profit in the same quarter last year. Net sales for the quarter were 9.2 per cent higher at $1.1bn.

Excluding the tender offer expenses, the company made a net profit of $28.8m or 58 cents a share in the latest quarter.

For the nine months, the tender offer expenses resulted in a net loss of $45.8m, or 96 cents a share, compared with a net profit of $53.8m, or $1.27 in the 1985 period.

Excluding those expenses, Allied, which operates the prestigious Brooks Brothers and Bonwit Teller chains, lifted earnings 25 per cent to $87.2m or $1.81 a share. Nine-month net sales increased 8 per cent to $2.96bn from $2.77bn. All per-share earnings were adjusted for a 2 for 1 stock split in March.

Goodyear, Goldsmith deal blocked

BY OUR FINANCIAL STAFF

A SHAREHOLDER of Goodyear Tire and Rubber the world's largest producer of tyres, has filed a class action lawsuit seeking to block the company's repurchase of 12.5m of its shares from Sir James Goldsmith, the Anglo-French financier, and obtain damages.

Last week Sir James dropped his $5.3bn bid for the group and agreed to sell his 11.5 per cent stake back, earning his investor group more than $90m on the deal. The repurchase is part of a controversial $2.6bn Goodyear scheme to buy back almost half its equity.

The arrangement aroused consternation last week among many institutional shareholders and was immediately branded as one of the biggest examples of greenmail.

The suit was filed against Goodyear and Sir James in a federal court in Toledo, Ohio, by Mr Richard Appleby, according to his lawyer, Mr David Berger.

Mr Berger, of the Philadelphia firm of Berger and Montague, said the action was filed to "demonstrate to international corporate raiders that when they obtain greenmail they will have to disgorge it to the benefit of the corporation and its shareholders."

Greenmail is a legal move in the US.

U.S. $50,000,000

Genossenschaftliche Zentralbank Aktiengesellschaft
Vienna

Floating Rate Subordinated Notes Due 1996

Interest Rate	6⁹⁄₁₆% per annum
Interest Period	28th November 1986 29th May 1987
Interest Amount per U.S. $5,000 Note due 29th May 1987	U.S. $156.41

Credit Suisse First Boston Limited
Agent Bank

Banco de la Provincia de Buenos Aires
(A public entity organised under the laws of the Republic of the Argentine)
U.S.$50,000,000
Floating Rate Notes due 1988
Redeemable at the Noteholder's option in November, 1986
For the six months
28th November, 1986 to 28th May, 1987
In accordance with the provisions of the Notes, notice is hereby given that the rate of interest has been fixed at 7¾ per cent. and that the interest payable on the relevant Interest Payment Date, 28th May, 1987 against Coupon No. 11 will be U.S.$194-83.
Agent Bank:
Morgan Guaranty Trust Company
London

U.S. $125,000,000

BANK OF BOSTON CORPORATION

Floating Rate Subordinated Notes Due 1998

Interest Rate	6.175% per annum
Interest Period	28th November 1986 26th February 1987
Interest Amount per U.S. $50,000 Note due 26th February 1987	U.S. $789.03

Credit Suisse First Boston Limited
Agent Bank

U.S. $125,000,000
European American Bancorp
(Incorporated in the State of New York, U.S.A.)
Floating Rate Notes Due 1992
Notice is hereby given pursuant to the Terms and Conditions of the Notes that for the three months from 28th November 1986 to 27th February 1987 the Notes will carry an interest rate of 6³⁄₁₆% per annum. On 27th February 1987, interest of U.S.$ 156.41 will be due per U.S. $10,000 Note for Coupon No. 5.
EBC Amro Bank Limited
(Agent Bank)
28th November, 1986

U.S. $60,000,000
Caixa Geral de Depósitos
(A state credit institution established under the laws of the Republic of Portugal)
Floating Rate Deposit Notes 1994
In accordance with the provisions of the Notes, notice is hereby given that the rate of interest for the six months 28th November, 1986 to 29th May, 1987 has been fixed at 6⁵⁄₁₆ per cent per annum and that the coupon amount payable on 29th May, 1987 will be U.S. $319·13 per Note of U.S. $10,000 and U.S. $3,191·32 per Note of U.S. $100,000.
The Sumitomo Bank, Limited
Agent Bank

The Republic of Italy
U.S.$500,000,000
Floating Rate Notes due 2005
In accordance with the provisions of the Notes, notice is hereby given that for the Interest Period from 28 November, 1986, to 31 December, 1986, the Notes will carry an interest rate of 6⁵⁄₁₆% per annum. The interest payable on the relevant interest payment date, 31 December, 1986 will be US$56.72 per US$10,000 nominal amount in Bearer (Coupon No. 16) or Registered form and US$1,417.97 per US$250,000 denomination in Bearer form (Coupon No. 16).
28 November, 1986.
The Chase Manhattan Bank, N.A.
London, Agent Bank.

Woodside Financial Services Ltd.
(Incorporated in the State of Victoria)
U.S. $300,000,000
GUARANTEED FLOATING RATE NOTES
DUE FEBRUARY 1997
Unconditionally Guaranteed by The Industrial Bank of Japan, Ltd.
In accordance with the Terms and Conditions of the Notes, notice is hereby given that for the interest period from November 28, 1986 to February 27, 1987 the Notes will carry an interest rate of 6⅛% per annum. The amount payable on February 27, 1987 will be U.S.$3,870.66 and U.S.$154.83 respectively for Notes in denominations of U.S.$250,000 and U.S.$10,000.
The Chase Manhattan Bank, N.A.,
London, Agent Bank
November 28, 1986
CHASE

CITICORP
U.S. $500,000,000
Subordinated Floating Rate Notes
Due May 29, 1998
Notice is hereby given that the Rate of Interest has been fixed at 6¼% and that the interest payable on the relevant Interest Payment Date February 27, 1987 against Coupon No. 3 in respect of US$10,000 nominal of the Notes will be US$157.99 and in respect of US$250,000 nominal of the Notes will be US$3,949.65.
November 28, 1986, London
By: Citibank, N.A. (CSSI Dept.), Agent Bank
CITIBANK

U.S. $150,000,000
Homestead Savings,
A Federal Savings and Loan Association
Collateralized Floating Rate Notes Due 1995

Interest Rate	8% per annum
Interest Period	28th November 1986 27th February 1987
Interest Amount per U.S. $100,000 Note due 27th February 1987	U.S. $2,022.22

Credit Suisse First Boston Limited
Agent Bank

FIRST BANK SYSTEM, INC.
US$200,000,000
Subordinated Floating Rate Notes due 2010
Notice is hereby given that for the Interest Period from 28th November, 1986 to 27th February, 1987 the Notes will carry an Interest Rate of 6¼ per cent per annum and that the interest payable on the relevant Interest Payment Date, 27th February 1987 will amount to US$157.99 per US$10,000 Note and US$3,949.65 per US$250,000 Note.
Agent Bank:
Morgan Guaranty Trust Company of New York
London

U.S. $100,000,000

First Bank System, Inc.

Floating Rate Subordinated Capital Notes Due 1997

Interest Rate	6¼% per annum
Interest Period	28th November 1986 27th February 1987
Interest Amount per U.S. $50,000 Note due 27th February 1987	U.S. $789.93

Credit Suisse First Boston Limited
Agent Bank

Wells Fargo International Financing Corporation N.V.
U.S. $50,000,000
Guaranteed Floating Rate Subordinated Notes due 1996
In accordance with the provisions of the Notes, notice is hereby given that for the Interest Sub-period 28th November, 1986 to 31st December, 1986 the Notes will carry an Interest Rate of 6⁵⁄₁₆% per annum. The Interest accrued for the above period and payable on 30th January, 1987 will be US$56.72.
Agent Bank:
Morgan Guaranty Trust Company of New York
London

Wells Fargo & Company
U.S. $150,000,000
Floating Rate Subordinated Notes due 1992
In accordance with the provisions of the Notes, notice is hereby given that for the Interest period 28th November, 1986 to 31st December, 1986 the Notes will carry an Interest Rate of 6·225% per annum.
Interest payable on the relevant interest payment date 31st December, 1986 will amount to US$57.06 per US$10,000 Note.
Agent Bank:
Morgan Guaranty Trust Company of New York
London

U.S. $125,000,000
CARTERET SAVINGS BANK FA
Collateralized Floating Rate Notes Due 1994

Interest Rate	6⁵⁄₁₆% per annum
Interest Period	28th November 1986 29th May 1987
Interest Amount per U.S. $50,000 Note due 29th May 1987	U.S. $1,564.06

Credit Suisse First Boston Limited
Agent Bank

U.S. $50,000,000
ÖSTERREICHISCHE LÄNDERBANK
AKTIENGESELLSCHAFT
Floating Rate Subordinated Notes Due 1994

Interest Rate	6⁵⁄₁₆% per annum
Interest Period	28th November 1986 29th May 1987
Interest Amount per U.S. $5,000 Note due 29th May 1987	U.S. $159.57

Credit Suisse First Boston Limited
Agent Bank

U.S. $500,000,000
CITICORP
(Incorporated in Delaware)
Subordinated Floating Rate Notes Due January 30, 1998
Notice is hereby given that the Rate of Interest has been fixed at 6.20% and that the interest payable on the relevant Interest Payment Date December 31, 1986 against Coupon No. 11 in respect of US$10,000 nominal of the Notes will be US$56.83.
November 28, 1986, London
By: Citibank, N.A. (CSSI Dept.), Agent Bank
CITIBANK

The Chase Manhattan Corporation
U.S. $175,000,000
Floating Rate Subordinated Notes due 1997
Notice is hereby given that the Rate of Interest has been fixed at 6⅜% and that the interest payable on the relevant Interest Payment Date February 27, 1987 against Coupon No. 5 in respect of US$10,000 nominal of the Notes will be US$161.15.
November 28, 1986, London
By: Citibank, N.A. (CSSI Dept.), Agent Bank
CITIBANK

This announcement appears as a matter of record only.

November, 1986

NORWEST CORPORATION
U.S. $100,000,000
Norwest Corporation
Note Issuance Facility

Arranged by
Salomon Brothers International Limited

Lead Managed by
Citibank, N.A. — Algemene Bank Nederland N.V. — Barclays Bank PLC
The Dai-Ichi Kangyo Bank, Ltd. — Istituto Bancario San Paolo di Torino
The Kyowa Bank, Limited — The Mitsubishi Bank, Limited — The Taiyo Kobe Bank, Ltd

Managed by
Banco Central, S.A. — Banco di Roma — Caisse Centrale des Banques Populaires
Crédit Agricole (CNCA) — The Tokai Bank, Limited

Tender Panel Members
Banco Central, S.A. — Barclays Bank PLC
Caisse Centrale des Banques Populaires — Citicorp Investment Bank Limited
DKB International Limited — Mitsubishi Finance International Limited
Salomon Brothers International Limited — Tokai International Limited

Agent
Citicorp Investment Bank Limited

Issue and Paying Agent
Citibank, N.A.

Hitachi to cut capital spending as profits slide

By Yoko Shibata in Tokyo

HITACHI, the Japanese consumer electronics group, intends to cut investment in new plant and equipment by more than a fifth in its current fiscal year, while boosting its outlay on research and development, in an effort to regain a competitive edge in the face of the stronger yen.

Capital spending will come down 21 per cent to Y209bn ($1.23bn) for the group worldwide. The R&D budget is boosted 5 per cent to Y310bn, representing a 6.5 per cent ratio to total projected sales.

Hitachi yesterday reported consolidated net profits of Y48.56bn for the first half-year to September, down 46 per cent. Sales were off 4 per cent to Y2,434.34bn, while on a per-share basis net earnings were Y15.67 against Y29.37.

The company blamed its poor showing on the strong value of the yen and the semiconductor market slump. Its product divisions had mixed showings.

In the electronics sector, computers achieved good growth, offsetting the setback suffered by semiconductor operations. As a result, the division as a whole maintained sales at the previous year's level.

The power equipment sector showed a 10 per cent increase over the year earlier, primarily on the strength of domestic business. Consumer products sales were down 19 per cent, aggravated by the strong yen and intensifying price competition. Another factor was a halt of exports of television sets to China.

For the full year to March, Hitachi's consolidated sales are projected at Y4,790bn, down 4 per cent, with overseas sales expected to fall by 15 per cent. It is forecasting net profits of Y116bn, down 23 per cent

● Shizuki Electric has agreed with TRW, the Ohio components group, to purchase the US company's condenser division for an unspecified price, Kyodo adds from Osaka.

It will also take over 620 employees. Shizuki officials said the deal would be financed from proceeds of a SFr 15m ($9m) straight bond offering.

Jardine maps out restructuring

BY KEVIN HAMLIN IN HONG KONG

THE JARDINE group, Hong Kong's oldest trading house, is demerging the Mandarin Oriental Hetel group from its quoted Hongkong Land affiliate through a public flotation and transferring HK Land'e other non-property assets to that company's shareholders as part of a complicated reorganisation of its companies.

It was announced yesterday that HK Land's interest in Jardine Matheson Holdings, the parent, would be transferred to a new investment company, Hong Kong Investors (HKI), which is to be merged with Jardine Securities to form Jardine Strategic Holdings (JSH), an investment company which will have net assets of over HK$5.5bn (US$705.1m).

Mr Simon Keswick, chairman of JMH and of HK Land, said the reorganisation evolved from a strategic plan to create greater value for HK Land shareholders.

"The proposed distribution of Mandarin Oriental, coming as it does after the successful re-flotation of Dairy Farm (previously e food retailing subsidiary of HK Land), marks e continuation of the policy of offering shareholders the ability to participate directly in the fortunes of a first-class company which otherwise could only be owned independently."

The first step of the restructuring, which has already taken place, involves HK Land, JMH and Jardine Securities forming a new investment company, HKI, with assets of HK$3bn. HKI has options to acquire, for a combination ef new shares and cash, up to 35 per cent ef Mandarin Oriantal and up to an additional 9 per cent of Dairy Farm, ahead of the Mandarin demerger.

The second step will merge HKI with Jardine Securities into what will become JSH.

This procedure begins in December and should be completed by the end of January.

The third step, which will probably take place in the spring of 1987, involves JSH acquiring up to 35 per cent of Mandarin and another 9 per cent of dairy Farm. HK Land will then demerge 65 per cent of Mandarin and its 33 per cent holding in JSH to its shareholders via e rights issue for HK$1bn. Mandarin is estimated to have a net value of some HK$3.25bn.

JSH will hold a 25 per cent stake in JMH, 15 per cent in HK Land, 27 per cent in Dairy Farm and, following the exercise of its option, 35 per cent in Mandarin. JSH is incorporated in Bermuda and, unlike Hong Kong-based investment companies, will have the right to repurchase its own shares.

Through these moves HK Land will be transferring HK$3.25bn in assets to its shareholders and its debt will be reduced by over HK$1.1bn to approximately HK$7.75bn by the end of this year.

NTT barely ahead as share issue closes

BY OUR TOKYO STAFF

NIPPON TELEGRAPH and Telephone (NTT), Japan's state-controlled telecommunications entity, released interim results yesterday which showed a bare 0.8 per cent rise in pre-tax profits, as preliminary official reports on the first public tranche ef its flotation suggested only a modest response from local investors.

Taxable earnings for the six menths to September were Y171.89bn ($1.05bn) compared with Y170.54bn, on turnover which grew from Y2,500bn to Y2,636bn.

The NTT share offer, Japan's first privatisation issue, clesed on Wednesday. Ministry of Finance figures showed that 7m to 9m people had applied for the initial 1.65m shares, although officials were unable yesterday to provide any estimate of the total number of shares sought. Earlier estimates by the Government and securities houses had allowed for 15m to 20m applications.

MeF officials said yesterday that buyers will be limited te ene share each and will be chosen by letter. Institutions, which are believed to have submitted applications on behalf of various related companies, however, are expected to receive small blocks of shares. The successful applicants will be announced on December 29.

The Government plans to sell 10.4m NTT shares, or two-thirds of the company's 15.6m outstanding shares, over the next four years. Foreigners are expected to be allewed to participate in subsequent issues.

Meanwhile, in its latest half-year, NTT achieved a net profit gain of 17.3 per cent to Y89.79bn.

It is to pay its first interim dividend at the rate of Y2,500 per share, all of which will go to the Government. The company intends to pay a similar dividend in the second half, and has raised its forecast for full-year pre-tax profits from an initial Y345bn te Y348bn, and also revised full-year sales upward to Y5,328bn from the earlier forecast of Y5,292bn.

Kyocera shows 28% decline at mid-term

By Our Tokyo Staff

KYOCERA, THE Japanese microelectronics group, yesterday reported consolidated net profits of Y8.53bn ($52.35m) in the first half to September, down 28.6 per cent on sales which were off 7.5 per cent to Y134.73bn.

The earnings setback was atributed to a deterioration of export profitability caused by the higher yen and a rise in fixed costs

Kyocera's consolidated business performance reflected parent company pre-tax profits of Y15.41bn (down 38.9 per cent) and net profits of Y7.04bn (down 36.7 per cent) on turnover of Y119.33bn

Rembrandt boosts first-half earnings

By Jim Jones in Johannesburg

REMBRANDT, the South African-based tobacco, liquor, finance and industrial group, increased its profits sharply in the six months to September, but has followed its normal practice by disclosing no reasons fer the increase.

On unspecified interim turnover, pre-tax profits rose to R215.2m ($95.8m) from R169.9m. Net earnings increased to 283 cents a share from 232 cents and the interim dividend has been raised to 55 cents from 46.5 cents. Earnings totalled 532 cents in the last financial year for which a total dividend of 100 cents was paid.

Rembrandt is the largest cigarette maker in South Africa and its sales have benefited from a shift by black smokers away from hand-rolled cigarettes towards readymade products.

The group also participates in a controlling interest in Cape Wine and Distillers (CWD) which, in turn, enjoys near-monopoly control of the country's wine industry.

In Britain Rembrandt'e principal interest is its controlling stake in Rothmans International. In the US the group's principal associate is Philip Morris.

Elscint reduces losses

ELSCINT, the Israeli manufacturer of medical diagnostic equipment, has reported losses of US$19.2m for the first half to September, a considerable improvement from the record $92m deficit suffered during the first seven months of 1985-86, writes Judith Maltz in Tel Aviv.

Sales were static at $64.1m. The company attributed the narrowing of losses to tighter financial controls and reorganisation. It said that it hoped to break even by the first quarter of next year.

On Wednesday, the debt restructuring agreement signed in September between Elscint and its banks and parent company, Elron Electronic Industries, was ratified by the company's shareholders.

U.S. $50,000,000

First Boston, Inc.

Floating Rate Subordinated Notes Due 1994

Interest Rate	6 3/16% per annum
Interest Period	28th November 1986 29th May 1987
Interest Amount per U.S.$50,000 Note due 29th May 1987	U.S.$1,564.06

Credit Suisse First Boston Limited
Agent Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

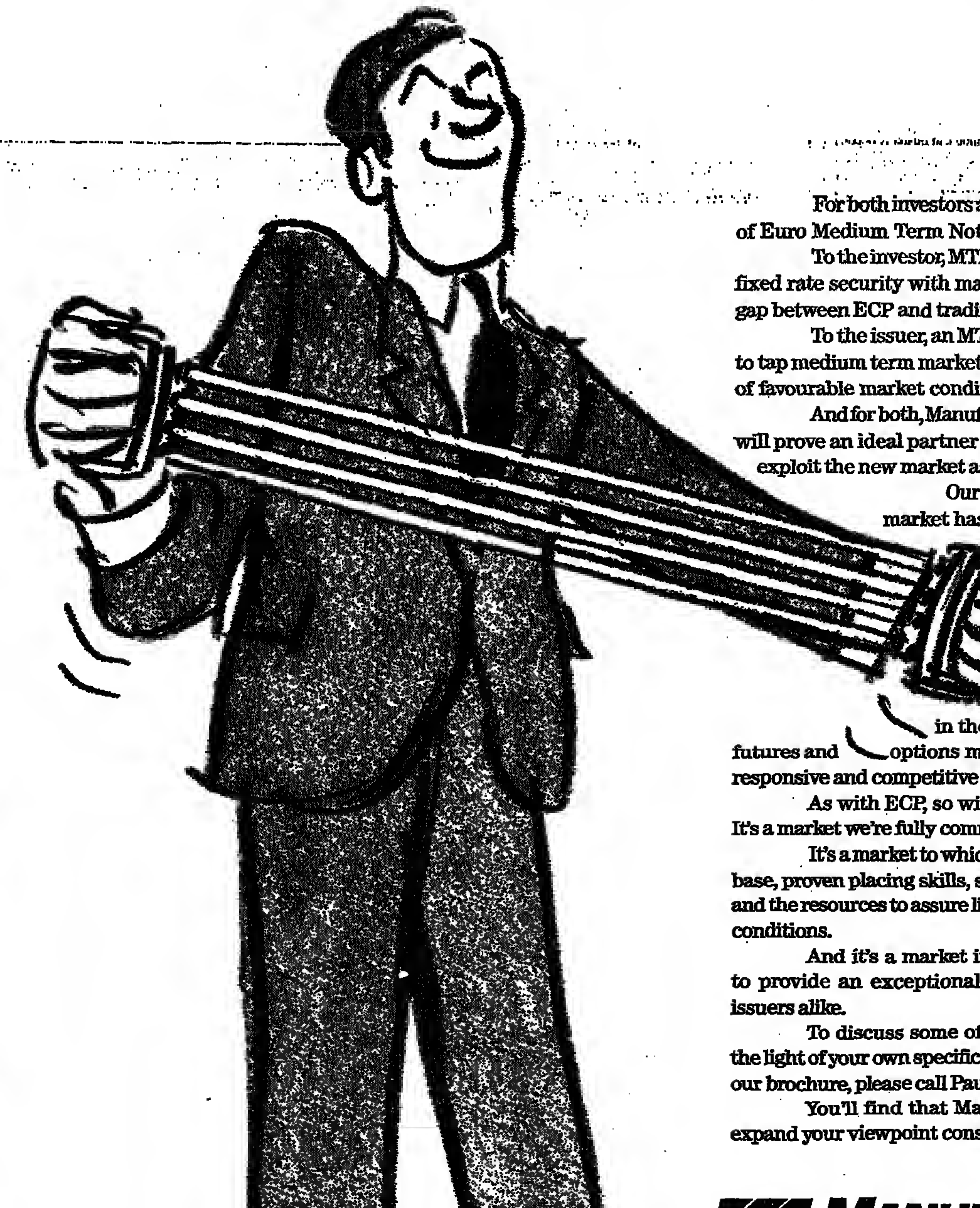
$250,000,000

U.S. Dollar Floating Rate Notes Due February 1994

For the interest period 28th November, 1986 to 27th February, 1987 the Notes will carry an interest rate of 5.81% per annum with a coupon amount of $146.86 per $10,000 Note, payable on 27th February, 1987.

Bankers Trust Company, London — Agent Bank

Euro Medium Term Notes: an ideal way to expand your investment and financing opportunities.



For both investors and issuers, the introduction of Euro Medium Term Notes offers tangible benefits.

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U.S.$ 350,000,000
Floating Rate Notes 1984/1989

The Rate of Interest applicable to the Interest Period from November 28, 1986 to February 26, 1987, inclusively, was determined by Morgan Guaranty Trust Company of New York, London, as Reference Agent to be 6⅛ per cent per annum. Therefore, Interest per Note of U.S.$ 10,000 principal amount is due on February 27, 1987, the relevant Interest Payment Date, in the amount of U.S.$ 154.83.

Frankfurt am Main, in November 1986

Dresdner Bank
Aktiengesellschaft
Principal Paying Agent

Dresdner Bank Group

SINCE 1848
EAST RIVER SAVINGS BANK

EAST RIVER SAVINGS BANK
U.S.$100,000,000 Collateralized
Floating Rate Notes due August 1993

For the three months 28th November, 1986 to 27th February, 1987 the Notes will carry an interest rate of 6.175% per annum with an interest amount of US$1560.90 per US$100,000 Note. Payable on 27th February, 1987.

Bankers Trust Company, London — Agent Bank

CENTRAL INTERNATIONAL LIMITED
US$150,000,000 Floating Rate Notes
Due 2006

For the three months 28th November, 1986 to 27th February, 1987 the Notes will carry an interest rate of 6.17187% per annum with an interest amount of U.S.$156.01 per US$10,000 Note and US$1560.11 per US$100,000 Note payable on 27th February, 1987.

Bankers Trust Company, London — Agent Bank

INTERNATIONAL CAPITAL MARKETS and COMPANIES

The OTC options trading debate is heating up, reports David Owen

Futures markets on the defensive

SLOWLY BUT surely, US futures and options exchanges are being pushed on to the defensive in their bid to nip tha competitive threat posed by off-exchange or over-the-counter futures and options trading in the bud.

Strictly speaking, Federal law requires that all futures and most options be traded on exchanges. The law is subject to wide differences of interpretation, bowever. Brokerage houses and banks are increasingly testing its parameters by introducing products which bear an uncanny resemblance to futures or optiens, but are traded over-the-counter.

These prodocts range from tailor-made hedges offered by major brokeraga houses for sophisticated institutional clients wishing to effset exotic assets and liabilities to the issuance of commodity-indexed capital raising instruments.

To compound the exchanges' concern, the Commodity Futures Trading commission—the industry's recently re-authorised regulatory watchdeg—claims the discretion, in the words of its general counsel, Mr Kenneth Raisler, "to determine that it doesn't want to prohibit any particular contract—even if it is arguably violative of the Commodity Exchange Act." This conviction is disputed by the Chicago Board of Trade, which maintains that "if anyone is to change the regulatory jurisdictions, it has to be Congress."

> "The only interest the exchanges had in opposing leverage contracts was to destroy competition."

Two specific off-exchanga products have already received effective clearance to enter the fray—albeit under a beefed-np regulatory structure.

Leverage contracts—futures-like instruments which enabla customers to invest in precious metals for a small downpayment—have been given the Congressional green light, despite staunch resistance from the exchanges headed by New York's Comex, and despite the CFTC's reluctanca to ba beld responsible for regulating them.

Sucb trading, however, will initially be restricted to gold and to the three firms currently authorised to offer leverage instruments, pending the completion of s CFTC study to determine if more regulation is needed before opening the market further. The agency has been given two years to complete this study, after which firms are expected to be able to offer contracts on gold, silver and platinum.

The California-based security Pacific National Bank is also set to go ahead with its plan to form an off-exchange network for trading options ou Treasury securities, although the revised Government Securities Act now means that it will have to register as a clearing agency with the Securities Exchange Commission to do so.

"We are in the process of finishing the paperwork prior to applying for SEC clearing agency status," according to Mr Bill Bucy, a Security Pacific assistant vice president.

Overall, the CFTC appears to be taking the view that there is nothing intrinsically wrong with off-exchange trading within a regulated environment. "Regulators should be responsive and flexible if needs change," according to Ms Susan Phillips, CFTC chairman. "I can see a computerised system meeting the standards of our act," sha adds.

Such talk is anathema to tha big exchanges which are worried that competitors may be allowed into the frame with fewer regulatory requirements. "We have been told that a certain level of regulstory back-up is necessary for futures trading to be tolerated," says one Chicago Board of Trade official. "It isn't fair for the Government to require soma entities to have regulation at a far higher level than other entities," he added.

> "It isn't fair for the Government to require some entities to have regulation at a far higher level than other entities."

The off-exchange proponents counter that the exchanges' espousal of tha customer protection issue is merely a front te add respectability to their attempts to eliminate potential competitors. "The only interest the exchanges had in opposing leverage contracts was to destroy competition," says Mr Lou Carabini, president of California-based Monex International, ona of the firms authorised to offer leverage contracts.

In any case, they add, over-the-counter business has been boosting exchange volume. "Off-exchange trading will expand the overall marketplace," says Mr Preston Appleby, Chicago-based manager of futures and options for First Boston. "Wa have found all sorts of interest among non-traditional futures users," ha adds.

Certainly, the short-term threat posed to tha exchanges by over-the-counter instruments appears limited. The volume represented by such trading is minute in comparison with exchange-traded futures and options and may remain so. "My intuition is that the economic advantages of a central marketplace are very strong," says Mr Ken Cone, director of regulatory studies at tha Chicago Mercantile Exchange. "Thet will limit what these instruments can ultimately do."

But the US exchanges, traditionally sensitiva to any hint of a threat to market share, are already worried about erosion of their pre-eminent position via the ongoing globalisation of the futures and options industry.

The off-exchanga issue is certain to he a topic of heated debate fer some time. Over the next two years, the CFTC is committed to conducting two studies into the subject, in addition to the leverage study. The first will encompass a broad review of all major issues at stake. The second will examina specifically commodity-linked capital-raising instruments, such as the offering of oil-indexed notes recently tendered by Standard Oil.

If current views prevail, the CFTC would ba unlikely te prevent an issue going forward, provided it was primarily e capital raising instrument. "We do not want to inhibit capital formation," says Ms Phillips.

Nor does it seem likely that the lengthy study period will provide the exchanges, as they hope, with a breathing space in which to formulate their own defences. "I don't see the study period as a deterrent to introducing new products at all," says First Boston's Mr Appleby. "I think we will have to continue to review these things during the study period." concurs the CFTC's Mr Reisler.

Japan's life companies to lower dividends

BY YOKO SHIBATA IN TOKYO

JAPANESE LIFE insurance companies are likely to lower their dividend payments during the financial year beginning next April by as much as 0.5 per cent in response to sharp decline in the average yields on their funds under management.

The nation's 83 life companies, grouped in the Life Insurance Association of Japan, have begun a study on the dividend cut in response to formal advice from the Ministry of Finance.

According to the MoF's estimates, the average yield on the life companies' assets under management will fall by 0.5 to 1 per cent during the current business year from the 7 to 8 per cent achieved during the financial year ended last March. The MoF's move has been prompted in particular by the high yields being offered on single premium endowment policies. These stand at present at just over 8 per cent, or about 2 per cent above the average yield on other high-coupon investments available to savers.

The Japanese authorities are concerned that in order to meet these high pay-out criteria, some life companies have been shifting their own investments too rapidly in the direction of high-return, high-risk securities such as money trust accounts, Euro-yen and other Euromarket bonds and instruments.

Many Japanese life companies saw high-coupon Eurobonds as a welcome opportunity in their increasingly competitive battle to show high returns on funds invested.

This announcement appears as a matter of record only.

November, 1986

COMMERCIAL FACILITIES COMPANY (S.A.K.)
KUWAIT

U.S. $50,000,000 Medium Term Syndicated Loan

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Arab Banking Corporation (ABC)
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Al Bank Al Saudi Al Fransi (The Saudi French Bank)
Libyan Arab Foreign Bank

Managed by

The Commercial Bank of Kuwait S.A.K.
Manufacturers Hanover Ltd.

Co-Managed by

Société Générale, Bahrain Branch
Al Saudi Banque
The Bahraini Saudi Bank B.S.C.
Banco Arabe Español S.A. "ARESBANK"
The Bank of Kuwait and the Middle East K.S.C.
The Gulf Bank K.S.C.

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Arab Banking Corporation (ABC) — Kuwait Foreign Trading Contracting & Investment Co. (KFTCIC)
Libyan Arab Foreign Bank — The Commercial Bank of Kuwait S.A.K. — Manufacturers Hanover, Bahrain
Société Générale, Bahrain Branch — Al Saudi Banque — The Bahraini Saudi Bank B.S.C.
Banco Arabe Español S.A. "ARESBANK" — The Bank of Kuwait and the Middle East K.S.C.
The Gulf Bank K.S.C. — Abu Dhabi Investment Company — ALUBAF Arab International Bank E.C.
Arab International Bank, Bahrain — Kuwait Real Estate Bank, K.S.C. — Trans-Arabian Investment Bank E.C. (TAIB)
Arab Bank for Investment and Foreign Trade (ARBIFT), Abu Dhabi — Arab Hellenic Bank S.A.—Athens
Banque Algérienne Du Commerce Extérieur S.A. Zurich — Banque Intercontinentale Arabe — Kuwait-French Bank

Agent Bank

Kuwait Foreign Trading Contracting & Investment Co. (S.A.K.)

CFP incurs net deficit after stock writedown

By Paul Betts in Paris

CFP, the French Total oil group, expects to report a net loss of about FFr 1.1bn (C$169.5m) this year compared with a net profit of FFr 1.4bn last year, Mr Francois Xavier Ortoli, the chairman said yesterday.

The net loss arises from heavy stock depreciation following the fall in the oil price and the weakness of the dollar.

Although the company is expected to earn FFr 6.3bn from trading operations, the negative effect of the stock depreciation, totalling about FFr 7.4bn will lead to a net loss.

Operating performance has continued to improve. This year's expected profit of FFr 6.3bn before stock accounting is nearly double last year's operating earnings of FFr 3.4bn.

For last year the negative effect of stock depreciation was limited to an accounting loss of FFr 2bn.

NZ insurer seeks $125m Eurocredit

By Peter Montagnon, Euromarkets Correspondent

NEW ZEALAND's Government Life Insurance Corporation is arranging a $125m loan facility in the Euromarkets under the lead management of Citicorp.

The deal came as part of a flurry of new mandates yesterday as borrowers look towards completing their requirements before the end of the year. Also launched yesterday was an Ecu 100m facility for Alitalia, the Italian airline.

The New Zealand facility carries an annual fee of 6¼ basis points and an underwritten margin on sales of notes of 10 basis points over London interbank offered rates. In addition the borrower will pay a utilisation fee of 5 basis points if more than half of any issue is returned to underwriters at this rate.

CIBC is leading the Alitalia deal alongside Banco di Roma and Mitsubishi Bank. It is a 10-year facility of which half will be underwritten for a five basis-point annual fee. The underwritten margin will be 6¼ basis points in the first four years, rising to 7½ points in the next three years and to 10 points thereafter.

These rates are higher than those paid by other Italian borrowers, but the borrowings of Alitalia, which is controlled by IRI, the state holding company, do not carry a formal state guarantee.

The deal provides for Alitalia te invite bids for Euronotes and short term advances through a tender panel. Banco di Roma's London branch will act as conduit bank to channel the funds to the horrower to avoid withholding tax being charged on interest paid in Italy.

Separately, Long Term Credit Bank of Japan appointed County NatWest, Shearson Lehman and S. G. Warburg to act as dealers in a £150m certificate of deposit programme. Guiness Mahon said it has arranged a £50m, 10-year facility for British Land, incorporating an option to raise money through short-term cash advances and the issue of sterling commercial paper. Terms were not disclosed.

Eurobond staff quit Enskilda Securities

By Alexander Nicoll

TEN EUROBOND traders and sales staff have resigned from Enskilda Securities following a strategic decision to scale down Eurobond trading and focus on sales.

Enskilda's rationalisation is likely to be seen in the market as a sign of the difficulty of making profits from trading in a market which has becoma increasingly over-populated by securities firms.

Mr Hamish Leslie-Melville, chief executive of Enskilda, said Eurobond trading had not been unprofitable, but that it provided a far less attractive return than other activities considering the large amount of money which a house had to put at risk by running a bond book.

Enskilda had therefore decided that it would no longer concentrate on trading with professionals, but on selling to customers. To this end, it was combining its selling of bonds, commercial paper and medium term notes into one debt sales area. Mr Leslie-Melville said that the investors in these securities were in many cases the same.

Staff who disagreed with the new policy were leaving, he said.

Enskilda would continue to have a syndicate desk operating in the Eurobond primary market.

US dollar FRNs marked lower in limited trading

BY HAIG SIMONIAN

THE SECONDARY market for US dollar floating rate notes (FRNs) caught dealers' attention yesterday, with issues being marked down a further five to 10 basis points after Wednesday's losses. As a result, the consolidation of the past two weeks has now all but vanished, marooning paper at earlier depressed levels. Meanwhile, yesterday's secondary market trading in FRNs remained largely limited to professionals.

In the primary market for straight Eurodollar bonds, Chiba Bank, the second largest regional bank in Japan in deposit terms, issued a $100m 2002 par-priced convertible Eurobond, led by Nomura International. The indicated coupon is 2¾ per cent, and final terms will be set on December 3.

The issue, which will be convertible into Chiba shares at a premium of about 5 per cent, can be called in 1990 at 104 per cent, declining by ½ per cent a year thereafter. However, tha paper cannot be called before 1992 unless Chiba's share price exceeds 150 per cent of the conversion price.

The Chiba issue was changing hands within fees at less 2 to less 1 on an otherwise quiet day in the secondary Eurodolar straight market. With virtually no price movements — reflecting the US Thanksgiving Day holiday — dealers were shutting up shop early yesterday afternoon.

Yamaichi International (Europe) led a $25m 1991 equity warrant bond for Takasago Thermal Engineering, guaranteed by Mitsubishi Bank. There is an indicated coupon of 3¼ per cent, to be fixed on December 4.

Helped by the buoyancy of the company's share price, the lead manager was quoting paper at less one to par: Takasago shares have just hit a new pek of Y908, against a 1986 low of Y510.

The $50m convertible bond for Lucas Industries, the British electronics group, was increased to $61m thanks to

INTERNATIONAL BONDS

overseas demand, particularly from continental Europe. The coupon was set at 5¼ per cent. Investors can convert into Lucas shares at 498p a share, representing an 8.03 per cent premium over Wednesday's closing price. The 1991 put option was priced at 111 and the currency exchange rate fixed at $1.4315.

The coupon for the $20m equity warrant issue for Aichi Toyota Motor was fixed at 3¼ per cent. The subscription price is Y1,384 against a closing price for the company's shares of Y1,350. The foreign exchange rate was set at Y163.90 to the dollar. Harima Chemicals' $30m equity warrant issue had its coupon fixed at 3¼ per cent. The subscription price is Y1,364, representing a 2.55 per cent premium over the company's present share price. The foreign exchange rate was fixed at Y163.90.

On the Continent, Takara Standard, a diversified domestic equipment manufacturer, issued a SFr 40m 1992 par-priced convertible bond, led by Bank Julius Baer. With an indicated coupon of 1¼, the non-callable issue has a put option in 1991 at an indicated 106, yielding 2.473 per cent.

The coupon for the SFr 50m equity warrant bond for Nippon Chemiphar was set at 2¼ per cent. The exercise price is Y1,128 — a 2.55 per cent premium over yesterday's closing share price of Y1,100.

Ichikoh Industries' SFr 30m convertible issue has had its coupon set at 1¼ per cent. The conversion price is Y395—identical with yesterday's closing share price. The issue's 1990 put option was set at 104 per cent against the 105 per cent indicated.

The secondary market for Swiss franc issues was barely changed in both volume and price terms. However, the World Bank 5¼ per cent issue fell by ½ point to 96¾. Bayerische Vereinsbank's SFr 100m 4¾ per cent bond closed its first day's trading down 1½ points from its par issue price.

Prices in the West German secondary market, particularly for supranationals, ended the day a shade firmer.

AMC sets up free credit offer

BY DAVID OWEN IN NEW YORK

AMERICAN MOTORS, the troubled US car maker which is 46 per cent owned by Renault, is to revert to zero per cent two-year financing on three of its 1986 models.

The move coincides with the release of disappointing company sales figures for mid-November. It follows a similar free credit offer for two-year loans, which formed AMC's response to the broader car credit war, which erupted in late August and early September. Cheap financing then resulted in record US car sales for the first half of September.

The latest AMC offer applies to the 1986 Renault Alliance, Encore and Jeep Comanche models. In addition, 3.9 per cent two-year financing will be available on 1987 Renault Alliance and GTA models. The programme will run until January 6.

AMC last month announced a nine-month loss of $111.3m, a marginal improvement from the corresponding 1985 loss. It has pinned recovery hopes on a new range of medium-sized cars to be introduced in autumn 1987.

Meanwhile, AMC's estimated sales during the nine-day mid-November selling period nose-dived to less than 50 per cent of the corresponding figure a year earlier. US sales were up 4.4 per cent at 345,988.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on November 27

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Amer. Express 7⅞ 95	100	96⅝	97⅛	0	−0⅛	8.21
Amoco Co. 9¼ 16	200	103⅝	104	+0⅛	−0⅛	9.37
Australia Com. 11 95	200	115⅝	116⅛	+0⅛	+0⅛	8.29
[illegible]						

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Amer. Ex. OS Cr. 0 91 A$	100	57⅛	57⅝	−0⅛	0	13.38
AB Electrolux 14½ 90 A$	50	100⅛	100⅝	0	0	13.97
Bremer Ldsbk. 12⅛ 91 A$	30	98⅝	99⅛	0	+0⅛	13.40
[illegible]						

* No information available—previous day's price.
† Only one market maker supplied a price.

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date for conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

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LAW AND SOCIETY

Computers cannot take over from judges

By A. H. HERMANN, Legal Correspondent

IN THE fourth of his admirably outspoken Reith Lectures on "Law, Justice and Democracy," Lord McCluskey dealt with the question: "How far can one trust tha judges?" Lord McCluskey, a Scottish judge who was Solicitor-General for Scotland from 1974 to 1979, trusts his brethren as long as they stick to the letter of the law.

He would allow them to fill in gaps so long as it is understood that such judge-made law is only temporary and can in tima be revised by Parliament. But he would not trust judges who try to flavour and modify law with subjective notions of justice.

Few will disagree with Lord McCluskey's premise that law is tolerable only if people cen readily discover whet tha rules are and what they mean. But his theory that this can be achieved only by statutes drafted, et the price of inelegant complexity, with mathematical precision, contradicts common experience. Not only ordinary people but learned lawyers and eminent judges find it always difficult, and sometimes quite impossible to understand what the statute drafted with such "mathematical precision" means.

Unfettered judicial freedom, Lord McCluskey said, is a vice. "If the application of the law be ieft uncertain, if policy choices have to be made, if there are respectable legal routes leading in opposite directions, then the judges, who have to choose one route or the other, will inevitably, and correctly, be accused of making choices upon grounds other than purely legal ones. And the courts will be dragged into politics."

This reasoning sounds good but contains two hidden faults. First, mathematical precision, the attempt to foresee all possible future situations, is not the best way of making law certain. The future always differs from our expectations. A aafer method is to state clearly the intantion of the legislature and leave the judge free to find means for achieving this end in accordance with the circumstances of the dispute brought before him.

The second fault is the assumption that adjndication can be a relatively mechanical process of applying precise and unambiguous rules to the facts. Though it need not be e "wide-ranging philosophical exercise in making policy choices," every application of law involves a policy decision, though within the limits set by the law. If this were not the case, we could replace judges by computers.

Lord McCluskey said that "from a strictly judicial viewpoint it matters relatively little what tha law provides; what matters is that it be clear and unambiguous." But judges would be hardly human if it did not matter to them what the law provides. They have their prejudices and their ideas about what is right and wrong, as have other people. The mechanical method of interpretation merely drives their subjective attitudes underground. They can give them effect only in the guise of grammatical interpretation and misinterpretation and by "distinguishing" precedents, thet is by choosing those which suit whatever they consider to be a desirable or fair decision. If, instead, they were given a greater freedom for achieving a clearly stated purpose of tha law, their work would become both easier and more predictable. It would also correspond more closely to the result intended by Parliament.

But enough of theories. Let me illustrate what I am trying to say by exploring the anatomy of a judgment reported in the Business Law column on November 20. It can serve as an example of how, following Lord McCluskey's method of mechanical interpretation, instead of "bending" the law, even a great judge, can with the greatest regret punish the innocent. Once be has follen into the grammatical pitfall of the text, he can no longer see the guiding light of Parliament's intention.

In the judgment of the Court of Appeal in *Phoenix General Insurance Co Greece SA v Administratia Asiguralrior da Stat*, Lord Justice Kerr dealt, *obiter*, with the question whether insurance contracts concluded by unauthorised insurers were null and void. He had to choose between two previous judgments by High Court jodges. First*, Mr Justice Parker, as be then was, heid that such insuranca contracts were invalid and that neither could the insured claim under them against the insurer, nor could the insurers claim against their re-insurers. The other judgment†, by Mr Justice Leggatt, came to the opposite conclusion. It held that even the unauthorised and prohibited carrying on of insurance busioess could creata enforceable rights for the innocent parties to the insurance contracts.

The issue of validity of contracts depends on the interpretation of the Insurance Companies Act 1974. Thie provides that "no person shall carry on in Great Britain insurance business of a class relevant for the purpose of this . . . Act . . . other than industrial assurance business, except—a body corporate which is authorised under Section 3 below to carry on business of that class." It also provides that a person on contravening tha Act shall be liable to punishment by e prison term of up to two years or a fine, or both.

The intention of Parliament is evident from a number of provisions of the 1974 Act designed to ensure that only solvent companies, and those whose continuing solvency is ensured, particularly by re-insurance, are authorised by the Secretary of Stata. The overriding objective of the Act is clearly to protect the public and one of the important means to this end is the reinsurance of the insurers' risks.

The Act says nothing explicitly about the validity or invalidity of contracts made by unauthorised insurers. Similar problems have been before the English courts. In his judgment, Lord Justice Kerr referred to authorities which invite the judge to look first at the mischief the Act wea designed to remove; invite him to bear in mind that the sole question is whether the statute maons to prohibit tho contract; underline that ona might find that the statute imposes e penalty upon an individual and yet does not prohibit the contract if it is made with o party who is innocent of the offence; and that the question is always whether the statute meant to prohibit the contract.

Lord Justice Kerr concluded from these authorities that "it does not follow that tho contract itself is impliedly prohibited so as to render it illegal and void." After acknowledging that the statutory prohibitions of the 1974 Act were designed to protect tha insured, he said: "Good public policy and common sense therefore require that contracts of insurance, even if made by unauthorised insurers, should not be invalidated."

So far, so good. But then all of a sudden, the Appeal Court judge followed Mr Justice Parker into a grammatical trap. Scanning the Act for any express provision which would preclude the application of "good pnblic policy and common sense," both agreed that, though the Act prohibited only tha carrying on in Great Britain of insurance business of certain classes by unauthorised insurers, Section 83 defined the various classes of insurance business as "effecting and *carrying out contracts on insurance* —(upon vessels or aircraft . . . etc)." Both felt—and Lord Justice Balcombe agreed—that the words (which I have italicised) should bo read into tha main provision of the Act, with the result that the performance of contracts would be prohibited and, therefore, unenforceable. "And how can a court enforce a contract against an unauthorised insurer when Parliament has expressly prohibited him for carrying it out?" Lord Justice Kerr asked. "In that situotion there is simply no room for the introduction of considerations of public policy."

This does not seem right. Though it is an accepted rule of statutory interpretation that short terms have the meaning given to them by definitions, in this case the italicised words are clearly used to define the classes of business and not tho carrying on of insurance business. They are also quite superfluous. What alse can ona imagine under tha "carrying on of insurance business" (or any other business) than the effecting and carrying out of contracts?

The carrying out of contracts of insurance would have been implied even if tha draftsman did not pedantically put it in. To say that the contracts would be valid only if the draftsman stopped after he had said that carrying on the business of insurance was prohibited, without mentioning specifically the carrying out of contracts, would be illogical.

If it is prohibited to carry on certain business, that embraces both the conclusion of contracts and their performance. But to punish the innocent party is contrary to the authorities and the clear purpose of the statute. Also, it leads to lawlessness.

This shows the enormous dangers contained in the mechanical interpretation recommended by Lord McCluskey. Judges should not try to behave like compnters. They should follow the intentions of Parliament, which would lead them to the light. Let them see through the obscurities of statutory drafting—and if Parliament provides no guidance, let them rely on their own perception of what is just and reasonable.

* *Badford Insurance v IRB (1983) 1 QB 966.*
† *Stewart v Oriental Fire and Marine Insurance (1985) 1 QB 988.*

Anglo American Corporation of South Africa Limited

(Incorporated in the Republic of South Africa)

Registration No 01/05309/06

INTERIM REPORT AND NOTICE OF DIVIDENDS

The unaudited consolidated results of the Corporation for the six months ended September 30 1986 and abridged balance sheet at that date are as follows:

Income Statement

(R million)	6 months ended 30.9.86	6 months ended 30.9.85	Year ended 31.3.86
Net income			
—investments	400	304	752
—trading	235	224	446
—other	43	6	103
Net income before taxation	678	534	1 301
Taxation	182	140	316
Net income after taxation	496	394	985
Attributable to outside shareholders	93	72	168
Preferred dividends	1	2	4
	94	74	172
Attributable earnings	402	320	813
Retained earnings of associated companies	177	135	391
Equity accounted earnings	579	455	1 204
Extraordinary items	(10)	8	(88)
Earnings after extraordinary items	569	463	1 116
Ordinary dividends	143	114	411
Retained earnings	426	349	705
Earnings—cents per ordinary share			
—attributable earnings	176	140	356
—equity accounted earnings	254	199	527
Dividends—cents per ordinary share			
—interim	62.5	50	50
—final	—	—	130

Balance Sheet

(R million)	At 30.9.86	At 30.9.85	At 31.3.86
Ordinary shareholders' equity			
Capital and premium	91	84	87
Non-distributable reserve	2 972	2 623	2 796
Distributable reserves	2 590	2 258	2 307
	5 653	4 965	5 190
Preferred capital and premium	15	35	25
Outside shareholders' interests in subsidiary companies	922	827	892
Total shareholders' interests	6 590	5 827	6 107
Loan capital	231	228	205
Loans from associated companies and others	2 111	1 799	2 076
Other liabilities	695	630	774
	9 627	8 484	9 162
Represented by:			
Investments	5 249	4 780	4 908
Fixed assets	1 773	1 573	1 867
Stocks and debtors	550	492	585
Loans to associated companies and others	13	56	25
Deposits and cash	2 042	1 583	1 997
	9 627	8 484	9 163
Number of ordinary shares in issue—millions	229	228	228
Net asset value—cents per ordinary share (after providing for dividend) Based on the market value of listed investments at September 30 1986 and the directors' valuation of unlisted investments at March 31 1986	9 369	5 469	7 067

Notes:

1. Particulars of the Group's interests in listed associated companies and general investments are as follows:

	At 30.9.86 R million	At 30.9.85 R million	At 31.3.86 R million
Associated companies			
Market value	17 515	9 714	13 286
Carrying value	3 774	3 504	3 585
	13 741	6 210	9 701
General investments			
Market value	3 337	1 852	2 181
Book cost	222	194	188
	3 115	1 658	1 993
Appreciation	16 856	7 868	11 694
Outside shareholders' interest therein	1 585	683	1 210
	15 271	7 185	10 484

2. Particulars of the Group's capital expenditure, which relates almost entirely to tha operating subsidiaries are as follows:

	At 30.9.86 R million	At 30.9.85 R million	At 31.3.86 R million
Capital expenditure for period (net)	132	118	238
Capital expenditure commitments (net)	851	863	910

3. Thare are no material changes in contingent liabilities from those disclosed in the latest annual report.

Commentary

Attributable earnings for the six months ended September 30 1986 were R402 million (176 cents per share), representing an increase of 26 per cent compared with the corresponding six months of 1985. Equity accounted earnings rose by 27 per cent to R579 million (254 cents per share). In view of the improved results the interim dividend has been raised from 50 cents to 62.5 cents.

Income from investments at R400 million was 32 per cent higher than the comparative R304 million. This is largely attributable to higher dividends flowing from the gold mining companies while increased dividend payments by diamond, platinum and ferroalloy interests also contributed to the satisfactory growth. The higher gold mine dividends reflect e 22 per cent increase in the rand gold price in the first six months of 1986 during which period it averaged R758 per ounce compared with R622 per ounce in the corresponding period in 1985. The rand gold price was boosted by the continuing weakness of the rand in relation to the dollar, and by the 11 per cent increase in the dollar price to $343 per ounce from $310 per ounce, over the same period.

Anglo American Coal Corporation Limited is the major contributor to trading income which increased by 5 per cent to R235 million from R224 million. Other net income rose from R6 million to R43 million, but taxation increased from R140 million to R182 million and income attributable to outside shareholders from R72 million to R93 million. Retained earnings of associated companies, which is transferred to non-distributable reserves, improved by R42 million to R177 million.

The results for the year ending March 31 1987 are expected to show a similar improvement.

For and on behalf of the board

G. W. H. Relly
J. Ogilvie Thompson
Directors

ORDINARY SHARE AND PREFERRED STOCK DIVIDENDS

On November 27 1986 tha following dividends were declared payabla to ordinary shareholders and preferred stockholders registered in tho books of the Corporation at the close of business on Friday, December 19 1986 and to bearer holders presenting tho appropriate coupon detached from their share or stock warrants:

— interim dividend No. 101 on the ordinary shares, in the amount of 62.5 cents per share (1985: 50 cents), being tha interim dividend in respect of the year ending March 31 1987, payable on Friday, January 23 1987;
— dividend No. 115 on tho 6 per cent cumulative preferred stock, equivalent to 3 per cent, for the six months ending December 31 1986, payable on Monday, February 2 1987.

A ootice regarding payment of the ordinary dividend to bolders of share warrants to bearer presenting coupon No. 106 will be puhlished in the Press hy the London Secretary on or about Friday, December 5 1986.

The transfer registers and tha register of members of the Corporation will bo closed from Saturday, December 20 1986 to Saturday, January 3 1987, both days inclusive. Registered shareholders and stockholders paid by the United Kingdom registrars will receive their dividends in United Kingdom currency converted at the rate of exchange applicable on Monday, December 22 1986, less appropriate taxes. Any snch bolders may, however, elect to be paid in South African currency, provided that tha reqnest is received at the offices of the Corporation's transfer secretaries in Johannesburg or in tha United Kingdom on or hefore Friday, December 19 1986.

The effective rate of non-resident shareholders' tax is 13.884 per cent.

The dividends are payable subject to conditions which can be inspected at the Johannesburg and London offices of the Corporation and at the offices of the Corporation's transfer secretaries, Consolidated Sbare Registrars Limited, 1st Floor, Edura, 40 Commissiooer Street, Johannesburg 2001 (P.O. Box 61051, Marshalltown 2107), and Hill Samuel Registrars Limited, 6 Greencoat Place, London SW1P 1PL.

By order of tha board
C. L. MALTBY
Secretary

Head Office:
44 Main Street
Johannesburg 2001
November 28 1986

London Office:
40 Holborn Viaduct
London EC1P 1AJ

This advertisement complies with the requirements of the Council of The Stock Exchange. It does not constitute an offer of, or invitation to subscribe for or purchase, any securities.

New Zealand

Yen 40,000,000,000
5½ per cent. Bonds due 1991

Issue Price 101¼%

The following have agreed to subscribe for the Bonds:-

Nomura International Limited
Deutsche Bank Capital Markets Limited
Mitsubishi Trust International Limited
S. G. Warburg Securities

Bank of Tokyo International Limited
Bankers Trust International Limited
Banque Paribas Capital Markets Limited
Credit Suisse First Boston Limited
DKB International Limited
Daiwa Europe Limited
EBC Amro Bank Limited
Fuji International Finance Limited
IBJ International Limited
Kidder, Peabody International Limited
Merrill Lynch Capital Markets
Mitsui Finance International Limited
Mitsui Trust International Limited
Morgan Stanley International
The Nikko Securities Co., (Europe) Ltd.
Nippon Credit International (HK) Ltd.
Swiss Bank Corporation International Limited
Sumitomo Trust International Limited
Union Bank of Switzerland (Securities) Limited
Yamaichi International (Europe) Limited
Yasuda Trust Europe Limited

Application has been made to the Council of The Stock Exchange for the Bonds to be admitted to the Official List. Interest will be payable annually in arrear on 11th December, the first payment being made on 11th December, 1987.

Particulars are available in the statistical services of Extel Statistical Services Limited. Copies of the Extel Card may be obtained during usual business hours on any weekday (Saturdays and public holidays excepted) from the Company Announcements Office of the Quotations Department of The Stock Exchange, Throgmorton Street, London EC2, up to and including 2nd December, 1986 or during usual business hours on any weekday (Saturdays and public holidays excepted) up to and including 12th December, 1986 from:-

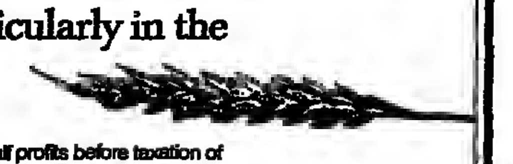
Nomura International Limited, Nomura House, 24 Monument Street, London EC3R 8AJ

Scrimgeour Vickers & Co., 20 Copthall Avenue, London EC2R 7JS

Kredietbank N.V., 40 Basinghall Street, London EC2V 5DE

28th November, 1986

Momentum is being maintained, particularly in the market for Century Oils Group's higher-value specialised lubricants.



Against a complex market background, Century Oils Group achieved first half profits before taxation of £2,544,000 (1985 £2,508,000). At £45,580,000 (1985 £44,371,000), turnover reflects increased volumes and improvements in sales mix which have been almost completely offset by the reduction in product values.

Century Oils Group's Belgian subsidiary has produced record profits and in the USA the company's activities have returned to profit. Our UK capital investment programme will begin to show benefits early in 1987.

The figures below for the half years have been extracted from unaudited accounts.	Half Year to 30.9.86 £000	Half Year to 30.9.85 £000	Year to 31.3.86 £000
Turnover	45,580	44,371	91,100
Operating profit	3,407	3,317	6755
Profit on ordinary activities before taxation	2,544	2,508	5,138
Profit on ordinary activities after taxation	1,687	1,428	3,909
Dividend per ordinary share	1.60p	1.50p	5.00p
Earnings per ordinary share	6.64p	5.61p	15.85p

Century Oils Group plc
PO Box 2, Century Street, Hanley, Stoke-on-Trent, ST1 5HU. Tel 0782 202521. Telex 36213 Centol G.

UK COMPANY NEWS

DISAPPOINTING RESULTS FROM FIXED INTEREST AND UK EQUITIES

Mercury Intl profits fall by £7m

MARKING THE first period of trading of Mercury International Group — formed last April from the merger of Mercury Securities, Akroyd and Smithers, Rowe and Pitman, Mullens, and Mercury Group Management — pre-tax profits for the six months ended September 30 1986 amounted to £38.12m.

These were compared with pro-forma results of £44.9m previously, which were prepared as if the merger had been implemented throughout the period.

The directors said the group achieved outstanding increases in the results of asset management, corporate finance, foreign exchange dealing, stockbroking and international equity new issue, distribution and trading activities in London and overseas.

However, these were outweighed by disappointing results in fixed interest and UK equity trading and treasury operations, while general banking, overseas advisory and Stock Exchange money broking activities maintained steady progress.

After minorities and preference dividends, earnings attributable emerged at £24m (£24.5m) or 16.4p (16.8p) per share. As forecast, the company will pay an interim as well as a final dividend, starting with an interim distribution of 3p absorbing £4.4m.

The directors stated that the six months' figures compared with a corresponding period characterised by an "unusually favourable climate of declining interest rates and strong markets, and indeed a whole previous year of remarkable profitability."

Furthermore, during the first half of 1986-87 the transition from single to duel capacity trading, in the London gilt-edged and equity markets, was already underway with new market makers trading outside the structure and rules of the Stock Exchange "by which we were bound, thereby handicapping the competitiveness of our securities activities."

The directors added that since Big Bang trading in gilts had been as tough as expected although there had been growth in volume, while trading in equities had been warmly encouraging.

Over the 18 months to September 30 last, the group invested more than £40m on its merger preparations and non-recurring development expenses both in the UK and overseas. The directors pointed out that since the merger was implemented development expenses of £7m had arisen and, after deducting related tax relief, were charged direct to inner reserves.

And, although further costs of this type would arise, and be similarly accounted for, the directors said the rate of increase of this expenditure should decline.

Since the merger, the directors pointed out, the group's corporate and operating structures ensured that there was complete segregation between asset management and the other activities of the group, and that a "Chinese Wall" was not only constituted in rules and regulations, but also in the minds and conduct of all concerned.

They felt it was too early to form a reliable view of the likely outturn for the year as a whole. However, looking back at the period since the merger became effective, they could see every sign that the group had opened the way "for a constructive and creative future."

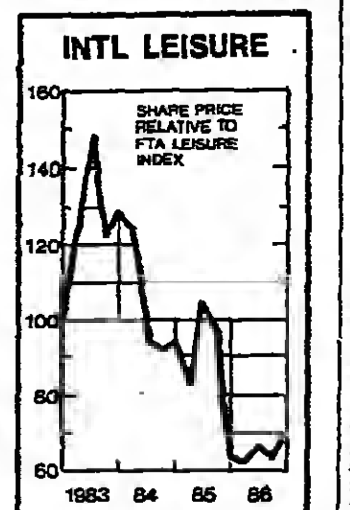
See Lex

ILG up 47% at operating level

By Mike Smith

International Leisure Group, the package holiday and hotels business, yesterday reported interim pre-tax profits, including aircraft sales, of £23.2m, down from last year's £29.3m. But operating profits, on which the market evaluates the shares, were 47 per cent ahead at £21.5m.

The results, for the six months to the end of September 1986 were slightly below



expectations and the shares fell 2p to 126p.

Turnover for the period was up at £319.8m against £198.8m.

Mr Harry Goodman, chairman, said the figures reflected the 10 per cent increase in the UK tour operating market and ILG's growing share of it. Margins were helped by less discounting, higher load factors and reduced fuel costs.

Air Europe had achieved record levels of utilisation and contribution per aircraft and the hotels business had made a useful contribution.

During the next 18 months ILG would be intensifying its strategy of becoming a more broadly-based business, Mr Goodman said. By April there would be 14 operational aircraft against the present five and the number of hotels would be increased from seven to 15.

Mr Goodman said the growth would lead to additional overheads in the second half, resulting in trading losses for the period being considerably higher than last year.

"Nevertheless the directors feel confident that the profit for the full year will be significantly ahead of the comparable figure in 1985-86 of £8.8m," he said.

The UK tour operating results for the first half included the summer operations of Global for the first time. Although ILG was pleased with Global's performance in the air holiday section, the coaches division turned in a loss after suffering from the downturn in visitors from the US and Australia.

The group's tour operating division was forecast to carry 2.1m passengers this year and 2.6m to 2.7m in 1987-88.

Mr Goodman said both Air Europe and Air Europa, the Spanish group which started flying earlier this month and in which ILG has a 25 per cent stage, has already sold their capacity for next summer.

Diluted earnings per share came oot at 28.4p (42.9p) and the interim dividend was increased by 10 per cent to 2.2p.

See Lex

BPB pleases City with 51% midway profits leap

BPB Industries, the building materials, paper and packaging group, yesterday reported a 51 per cent leap in pre-tax profits from £46m to £69.3m for the half year to September 30 1986. The result pleased the City and the shares were marked up 25p to 548p.

BPB attributed the improvement to strong demand in all markets for building materials and paper and packaging products, together with higher efficiencies and lower energy and raw material costs.

Turnover was ahead 23 per cent at £367m. Operating profits jumped 54 per cent from £42.4m to £65.1m, with all geographical areas of the group's operations showing an improved performance.

The company said that prospects for the second half were good, subject to the usual uncertainty relating to the winter weather.

BPB revealed that the European Commission was investigating a complaint by an importer of Spanish plasterboard. A full response had been submitted, but the company understood that no further information was likely to be available for some time.

First-half earnings per 50p share increased from 15.1p to 23.9p and the interim dividend is stepped up to 4.5p (3.5p) net. Last year's total payment was 9p on £103.2m taxable profits.

A geographical split of the interim operating profits showed: In building materials UK £29.5m (£25.1m); Canada £9.7m (£9.9m); France and Italy £12.8m (£4m); Republic of Ireland £1.3m (£1m) and in paper and packaging UK £8.7m (£5m) and overseas £2.9m (£0.4m).

Shares of related companies added £4m (£3.8m) and interest received £0.3m (£0.9m paid). UK tax took £23.9m (£11m) and overseas tax (including related companies) £12.2m (£5.1m).

See Lex

RHM sells US pasta interests

BY CLARE PEARSON

Ranks Hovis McDougall, the bakery and grocery group, announced yesterday that it has sold its American pasta manufacturing and sales interests to US food manufacturer Borden in a deal worth $72m (£50m).

For the three pasta companies, RHM is receiving $58.5m in cash, including estimated profits to completion of the sale. RHM is retaining a $3.2m liability for deferred taxation, and Borden is taking on $11.5m of long-term debts.

RHM said yesterday that, as it was not a major player in the competitive US pasta market, it felt the proceeds could be used more profitably in developing its other businesses. The company said they were not presently earmarked for any particular existing areas, or new acquisitions.

For the financial year ended 31 July, the companies mada consolidated pre-tax profits of $4m. Their consolidated shareholders' funds at that date amounted to $32m.

The three companies are Gioia Pasta Company, Merlino's Macaroni and Ravarino & Freschi, based in Buffalo, Seattle, and St Louis respectively.

RHM recently revealed that Fletcher Challenge, the New Zealand group, had built up a 4.9 per cent stake in the company. The Australian group Goodman Fielder acquired a 14 per cent stake earlier this year.

Dawson profits hit by drop in tourism

FIRST-HALF sales by Dawson International rose 15 per cent to £166.75m while the pre-tax profit was up only 8 per cent, from £14.59m to £15.72m.

Compared with the buoyant trading conditions of 1985 the branded knitwear companies experienced difficult conditions, the directors said.

These were a consequence of the reduced number of tourists in Europe, particularly in the UK. In turn the reduced level of business at both group and other knitters affected the profitability of the related companies, namely hosiery spinning and raw material processing.

However, the directors said the overall outlook was encouraging. In the second half it was expected that the non-knitwear related businesses would continue to perform ahead of last year.

Although trading by the knitwear companies was likely to stay at lower levels compared with last year, the benefits of the recent weakening of the pound would have a positive effect on profits later in 1987.

As far as other knitwear related businesses are concerned, there were already signs in the raw material processing and spinning companies of more normal levels of trading.

The half year results, to September 30, included the two US acquisitions made in July—specialist textile makers Associated Products and Duofold. In the period since acquisition they produced sales of £18.7m and profits of £1m, net of financing costs and before tax.

The group's non-knitwear related business reported higher profits as a result of increased demand. In particular, Blackwood Bros, Dawson Fur Fabrics and J. E. Morgan Knitting Mills showed strong improvements and benefited from the recent investment programme.

Earnings for the period came to 6.8p (6.6p) after tax of £5.85m (£5.24m), and the interim dividend is stepped up to 2.1p (1.09p) net. There was an extraordinary profit of £830,000 this time mainly representing the gain from the sales of the leasing subsidiary.

● *comment*

For a company which bed just reported virtually flat profits once acquisitions are stripped out, Dawson attracted a remarkable response with its share price rising 11p to 228p. Probably the drivint force behind the increase was relief that profits had advanced et all, for Dawson did not have an easy first half. Quite apart from the downturn in knitwear sales, it had to stomach a £600,000 loss on currency translation and an £800,000 increase in its depreciation charge. The second half is not looking a great deal brighter: retailers are still overstocked with unsold jumpers and the knitwear factories are on short-time working, and it is hard to see the non-knitwear side going far beyond outweighing the downturn. The acquisitions should pull the group up to £46m pretax for the year but will leave earnings little changed, producing a prospective p/e ratio of nearly 12. That is high for the sector and is looking well into next year, so the price could languish awhile yet before regaining its momentum.

M Hall forecasts £17.5m

Matthew Hall, the engineering designer and contractor, saw turnover rise by more than 28 per cent but pre-tax profit move ahead by only 11 per cent in the nine months to September 30 1986. Turnover amounted to £377m, up from £295m last time, while profit emerged at £12.6m against £11.4m.

The directors said that be completed which could affect the year's results and added that they expected full-year pre-tax profit to be not less than £17.5m, compared with £16.1m in the year to December 31 1985.

In a departure from previous results, the company separated the trading results of its various sectors and adjusted comparative figures.

Profits in the oil and chemical sector were down slightly from £4.8m to £4.7m; mechanical and electrical interests moved ahead to £4.4m (£4.2m); the mining and minerals sector turned e £648,00 deficit into profit of £824,000; and the design and construction sector raised profit significantl yfrom £115,000 to £751,000.

Comparative figures includs the result of the IDC Group, the Warwickshire-based designer and contractor of industrial and commercial buildings acquired for £19.1m in August 1985. However, no account has been taken in the results or earnings calculations of Noble Distribution.

After tax of £4.7m (£5.3m) earnings per share rose from 8.73p to 10.2p. Shareholders benefit from the company's improved performance through an increased declared interim of 1.75p (1.5p).

● comment

The core divisions at Matthew Hall—oil and gas and mechanical and electrical—bad sluggish years and so growth depended on the turnround in the mining division and the IDC acquisition. But the major strategic news is that the group is planning to use its cash mountain to acquire an extra leg to try to make the growth prospects rather more spectacular. Any acquisition is certain to come before the end of the next financial year, making speculation about next year's pre-tax profits rather academic but oil has probably seen the worst, mining has further room for recovery and IDC should see the benefits of contracts deferred from this year. All that indicates 1987 profits of £21m but any cash acquisition is likely to boost earnings per share so the prospective p/e does not look too demanding at 8, on yesterday's share price of 142p.

Brasway buys

Brasway, the tube and bright bar manufacturer and oil blender, has agreed to purchase two wholly-owned subsidiaries of Unilever, Europower Hydraulics and E. H. Fluid Connectors, for a cash sum not exceeding £3.1m.

The total turnover of Europower and E. H. Fluids in 1985 was £8.2m while combined pre-tax profit to December 31 1985 amounted to £441,000.

Shandwick crosses the Atlantic

Shandwick, Britain's largest public relations group, is to pay at least $5.8m for two US and two UK companies in its first acquisitions since gaining a full listing earlier this month.

The purchase of Washington-based Henry J. Kaufman and Associates and New York-based Rand Public Relations marks Shandwick's transatlantic diversification.

Shandwick is also buying the Graham Rote Group, a leading public relations consultant in the Midlands, and Bastable, a London advertising agency.

The acquisitions are being funded by the issue of 1,984,942 shares, expanding the capital by 35 per cent. Morgan Grenfell and Rowe and Pitman placed 1,763,018 of these yesterday at 325p, the balance being retained by the vendors of Rand and Graham Rote.

Also placed yesterday were 512,368 shares sold by Mr Peter Gummer, chairman, and 87,632 sold by Mr Paul Thomas, director of its main operating subsidiary.

The sale and share issue reduce Mr Gummer's stake from about 46 per cent to 27 per cent. Shandwick shares shed 8p yesterday to close at 343p.

Shandwick said that its US purchases reflected the opportunities in the larger market as public relations became increasingly internationalised.

It is paying an initial $4m (£2.8m) for Kaufman, with profit-linked deferred payment of up to $3.2m.

Rand provides marketing public relations services to consumer products groups. Shandwick will pay up to $4m for the company which reported 1985 profits of $109,000 before tax and additional management payments.

Shandwick will pay an initial £600,000 for the Graham Rote group, with possible profit-linked additional payments of £600,000.

Bastable is Shandwick's first venture outside public relations consultancy. Depending on future profits, Shandwick will pay between £1.2m and £2.95m for the advertising agency.

DIVIDENDS ANNOUNCED

BPB Industries ......int	4.5	Jan 28	3.5	—	9
Brit Empire Secs	0.4	—	0.3	0.6	0.5
A. F. Bulgin ....int	nil	—	nil	—	0.1
Carless Capel ......int	†1	Jan 19	1	—	2.75
Chrysalis	3.6	Jan 30	—	5.6	—
Circaprint Hldge	‡1.28	—	1.05	1.28	1.05
Dawson Intnl ....int	2.1	Jan 19	1.9	—	6.2
Freshbake ....int	†‡0.7	Feb 27	0.6	—	1.9
Matthew Hall ......int	1.75	Dec 31	1.5	—	4.5
Intnl Leisure ......int	2.2	Jan 30	2	—	5
Mercury Int ....int	3	Dec 17	—	—	8¶
Millward Brown ...int	‡1.25	—	—	—	11
Penny & Giles ......int	0.76	Jan 26	0.68	—	2.18
Scottish Inv	4.25	—	3.95	6.55	5.95
Viewplan	‡0.42	Jan 16	0.42	—	1.26

Dividends shown pence per share net except where otherwise stated. * Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. ‡ USM stock. § Unquoted stock. ¶ For 5 months. ‖Equivalent annual rate after merger and adjusting for scrip issue and conversion of preference shares.

THE McCORQUODALE CASE

Takeover Panel rejects claim that it acts as public law body

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

THE CITY Takeover Panel yesterday rejected in the Court of Appeal a claim that it was a public law body whose decisions could be reviewed by the courts.

Mr Robert Alexander, QC, for the panel, said that in making tha claim Prudential-Bache, the US securities house, was trying to extend public law jurisdiction to bodies that had never previously been within its ambit.

Public law, he said, operated on "inferior tribunals" and bodies carrying out administrative duties under statute. The panel was not such a body. It was a domestic tribunal to which those in the market in which it operated submitted purely voluntarily.

Sir John Donaldson, the Master of the Rolls, said that he had "a gut feeling" that the panel must be an "inferior tribunal" if it did not otherwise come under public law.

Pru-Bache is challenging the legality of a ruling made by the panel in the course of the battle over the £155m takeover bid by printer Norton Opax for McCorquodale, another printing group. Pru-Bache is advising Datafin, a company formed by an element in McCorquodale that favours a management buy-out.

The appeal court yesterday gave Pru-Bache leave to seek judicial review of the panel's ruling and said that it would treat the present hearing as the actual review hearing.

It did so as a matter of practical convenience, on the basis that all the arguments to be deployed in the jndicial review were being put before it.

The court took that course without prejudice to the fact that it will eventually bave to rule on whether, as a matter of law, the panel is a public law body whose decisions are susceptible to judicial review.

That issue is regarded as the most significant in the case, because of its far-reaching implications for the futura of *self-regulation in the City.*

Mr Alexander said that there were many self-regulating bodies, within and without the City, with functions that could be said to be within the public domaine, or to affect the public interest.

The City had traditionally been self-regulating and remained so, subject to the constraints imposed by the Financial Services Act.

"It is of some significance that the Act expressly does not deal at all with tha position of the takeover panel—the inference being that, having considered the issue, Parliament is content that, in this area, self-regulation shall continue to operate."

Mr Alexander said that, apart from appeals procedures provided for by the rules of self-regulating bodies, in relation to many of them there might be a right to a private law remedy for anyone affected by a decision.

The City takeover code contained safeguards for those affected by the panel's decisions.

It was, therefore, not the case that, in the absence of a public law jurisdiction, an affected person would have no remedy.

Self-regulation, said Mr Alexander, could not survive *unless it kept* the confidence of those in the markets in which it operated and, increasingly, unless it served the public interest.

Two *of* the *merits* of the panel were the speed at which it could act and the finality of its rulings. If the court intervened those advantages would ba lost, bowever quickly the court might move.

Mr Alexander said that if a disaffected party objecting to a panel decision could rush to court there would be the possibility of a dislocation of the operation of the market during a takeover situation.

Also, he said, an application to the court *could be a defensive* measure during a bid; or it might be designed to create uncertainty about the outcome of the bid. It might be used as a ploy during a takeover.

The fact that a body was referred to in an Act of Parliament or statutory instrument did not mean that its functions were public law ones.

"We are performing a duty which it is in the public interest should be performed, but it is not a public duty," Mr Alexander said.

The hearing will resume on Monday.

Jardine Matheson Holdings Limited
("Jardine Matheson")

Notice of Compulsory Exchange of 7 per cent. Exchangeable Preference Shares ("Preference Shares")

Jardine Matheson hereby gives notice that, pursuant to paragraph 8 of the terms upon which the Preference Shares were issued (the "Schedule of Terms"), all the Preference Shares are to be compulsorily exchanged into Exchange Property, as defined in the Schedule of Terms, (which currently comprises 223,356,042 ordinary shares in The Hongkong Land Company, Limited ("Hongkong Land")) on 29th December, 1986.

Each Preference Shareholder is required prior to 12 noon in Luxembourg on 29th December, 1986 to deliver the following to the office of Banque Indosuez Luxembourg at 39 Allée Scheffer, L-2520, Luxembourg:—

(i) the share certificate(s) in respect of the Preference Share(s) held by that Preference Shareholder (or, if such certificates have been lost or destroyed, such evidence of title and such indemnity as the directors of Jardine Matheson may reasonably require);

(ii) banker's orders or similar instruments payable to Jardine Matheson in respect of all taxes and stamp, issue and registration duties (if any) arising on exchange in any jurisdiction (other than any capital or stamp duties payable in Hong Kong or Bermuda which will be paid by the transferor). (Note — Jardine Matheson is not at present aware of any such taxes or duties. However, where any Preference Shareholder is aware that any such tax or duty is payable in connection with the exchange of his Preference Shares he must comply with this requirement); and

(iii) a statement that the beneficial owner of the relative Preference Shares, and of the Hongkong Land shares to be transferred upon exchange thereof, is not a US person (as defined in the Schedule of Terms) or acting, directly or indirectly, for the benefit of a US person and that the said Hongkong Land shares will not be offered, sold or delivered directly or indirectly in the United States (as defined in the Schedule of Terms) or to any US person; provided that the original purchasers of the Preference Shares in the US private placement will not be required to represent that they are not a US person.

Jardine Matheson will use all reasonable endeavours to transfer the Hongkong Land shares which comprise the Exchange Property to the Preference Shareholders, and to procure that certificates in respect of those shares are issued, not later than 28th January, 1987. Fractions of Hongkong Land shares will not be transferred but a cash payment will be made to the relevant Preference Shareholders in lieu thereof (except in cases where such cash payment would amount to less than US$2 in respect of a single holding). The share certificates, cheques for the dividend payable in respect of the period ending on 29th December, 1986 (amounting to approximately US$35.583 per Preference Share) and cheques for any payment in respect of fractions will be sent to Preference Shareholders at their risk addressed to their respective registered addresses.

No Hongkong Land shares will be transferred, or payments made, to any Preference Shareholder who fails to comply with the requirements set out above prior to 12 noon in Luxembourg on 29th December, 1986. In such event, the Hongkong Land shares to which such Preference Shareholder would otherwise be entitled will be sold and the proceeds of sale together with the dividend due to that Preference Shareholder, will be sent to the Preference Shareholder upon the share certificate(s) in respect of the Preference Share(s) held by that Preference Shareholder being delivered to Banque Indosuez Luxembourg at the address set out above.

By Order of the Board
R. C. Kwok
Company Secretary
28th November, 1986
Hong Kong

NOTE: For convenience of Preference Shareholders any enquiries relating to this notice may be addressed to Mr. J. Grava, Credit Suisse First Boston Limited, 22 Bishopsgate, London EC2N 4BQ, England, Telephone: 01-634 3000, Telex 892131 CSFB G.

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NM ROTHSCHILD ASSET MANAGEMENT

GRANVILLE
SPONSORED SECURITIES

High	Low	Company	Price	Change	Gross div.(p)	Yield %	P/E
146	118	Ass. Brit. Ind. Ord.	135	—	7.3	5.4	9.3
151	121	Ass. Brit. Ind. CULS	147	—	10.0	6.8	—
46	28	Armitage and Rhodes	38xd	—	4.2	11.1	6.3
71	64	aaa Design Group (USM)	64	—	1.4	2.2	15.2
206	108	Bardon Hill Group	206	+1	4.6	2.2	23.4
92	42	Bray Technologies	92	—	4.3	4.7	10.9
201	75	CCL Group Ordinary	133	+2	2.9	2.2	9.4
162	98	CCL Group 11pc Conv. Pref.	107	—	15.7	14.7	—
257	80	Carborundum Ordinary	257xd	+1	9.1	3.5	12.4
94	83	Carborundum 7.5pc Pref.	93	—	10.7	11.5	—
32	20	Frederick Parker Group	22	—	—	—	—
125	50	George Blair	90	—	3.8	4.2	2.3
94	20	Ind. Precision Castings	94xd	—	6.7	7.1	9.4
218	154	Isis Group	154	—	18.3	11.9	8.9
126	101	Jackson Group	126xd	—	6.1	4.8	8.8
377	228	James Burrough	363	—	17.0	4.7	10.2
100	85	James Burrough 9pc Pref.	93	—	12.9	13.9	—
1085	342	Multihouse NV (AmstSE)	795	-25	—	—	—
360	280	Record Ridgway Ordinary	370	-2	—	—	41.1
100	87	Record Ridgway 10pc Pref.	91	—	14.1	16.2	8.6
85	25	Robert Jenkins	37	—	—	—	3.7
31	25	Scruttons "A"	37	—	—	—	—
131	86	Torday and Carlisle	131	+1	5.7	4.4	7.5
370	220	Travian Holdings	340	—	2.9	2.5	7.1
80	25	Unilock Holdings (SE)	26	—	0.9	2.3	7.1
102	47	Walter Alexander	100	—	2.6	3.5	14.7
228	190	W. S. Yeates	190	—	8.2	4.3	8.1
148	87	West Yorks. Ind. Hosp. (USM)	93	—	5.6	8.0	13.3

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Hanson in $200m agreed bid for US cement maker

BY NIKKI TAIT

Hanson Trust, the diversified industrial trading group which has been increasingly active on the Wall Street takeover front yesterday announced a $200m (£141m) agreed cash offer for California-based Kaiser Cement.

Hanson will today make a tender offer for Kaiser's common stock at $27.50 (£19.5) a share as soon as the New York market opens after Thanksgiving and its offer will remain open until the end of December. Its bid, however, is conditional on a minimum of 51 per cent of the shares being validly tendered. Kaiser shares closed on Wednesday at $20¾.

The offer has the backing of Kaiser's directors, and they are recommending shareholders to accept it. Rothschilds Inc is Hanson's advisor and will act as dealer-manager in the tender.

Sir Gordon White, chairman of Hanson Industries—the US branch of Hanson Trust—said that Hanson had been approached by Kaiser because directors were worried about receiving a hostile bid.

Los Angeles investor David Murdock now holds about 22 per cent of Kaiser's shares, having acquired his initial 6.4 per cent more than two years ago.

Kaiser is the US's fifth largest cement producer accounting for about 4m tons each year, and the biggest operator in California. The US cement industry generally has been hit by escalating imports in recent years, and in 1983 and 1984 Kaiser made losses before tax of $11.7m and $63.9m respectively.

In 1985, helped by asset sales, the company swung back to net earnings of $16.5m. on sales of $248m. In the first nine months of 1986 it has made $14.7m. with turnover of $173m. Total assets were $422m and net assets $186m.

In addition to its California business, Kaiser also has plants in a number of other western states—including Texas—plus a 43 per cent interest in P. T. Semen Cibinong, which operates a cement plant in Indonesia.

Sir Gordon refused to speculate on Hanson's plans were it to gain control of Kaiser, but analysts suggested that these peripheral interests might be disposed of, leaving Hanson with the core Californian business.

Hanson Trust shares started trading in ADR form on Wall Street this month, and the company recently partnered Sir James Goldsmith in acquiring an initial stake in Goodyear Tyre and Rubber (now sold back to Goodyear).

Hanson's existing US interests range from Smith Corona typewriters to Hygrade Food Products and Carisbrook Industries, a group of textile companies. In the building sector, it takes in Ames Company, which makes gardening tools, and USI Lighting.

Sparkling debut for Geest shares

By Richard Tomkins

Geest, the fruit and vegetable supplier whose offer for sale was subscribed over 30 times when it closed last week, made a sparkling debut on the stock market yesterday. Its shares, offered at 125p, opened at 151p and closed at their day's peak of 154p.

The offer had been seen as conservatively priced in comparison with Brake Brothers, another recently floated food distributor, and brokers had forecast a premium of 20p to 25p.

Sumit, the venture capital organisation which was placed at 135p, went to an 8p premium before closing at 141p, while Gleentree, the USM-quoted estate agent placed et 18p, more than doubled its price to close at 38p. Miss Sam, the fashion design company whose placing ran into a legal hitch last week, was unchanged all day at its 105p issue price.

Sharp drop in mining profits leaves Burnett £3m in the red

BY MARTIN DICKSON

Burnett & Hallamshire, the mining company which underwent a drastic financial reconstruction in February, yesterday reported a first half pre-tax loss of £3.06m—compared to a loss of £3.74m in the same period of last year—due largely to a sharp drop in profits from its mining operations.

The company said coal prices and margins had been depressed, while there had been a significant shortfall in profits from its subsidiary, Northern Strip Mining, mainly because of a landslip at a major opencast site which had reduced output and significantly increased operating costs.

A revised mining method had now been agreed with British Coal, from which the site was contracted, and full scale mining had now been resumed.

Mr Tom Carlile, the chairman, added that, while world coal markets remained depressed and uncertain, he believed that during the second half—subject to South African uncertainties—the company's businesses would operate profitably, although it was unlikely that the loss suffered in the first half would be eliminated.

During the summer Anglo United Development Corporation, a smaller mining company, initiated merger talks with Burnett but later abandoned them.

The mining division reported profits of £1.92m for the six months to end-September against £5.02m for the same period in 1985, while shipping reported a loss of £113,000 against a £7,000 profit. Rand London, the South African mining group in which Burnett has a 44.8 per cent stake, produced a £226,000 debit, against a £20,000 credit before.

Interest charges for continuing businesses rose to £3.06m (£2.4m). Provisions and realisations from discontinued businesses produced a net debit of £716,000 (£5.04m). After a tax credit of £985,000 (nil), there was an attributable loss of £2.09m (loss of £3.74m) and a loss per share of 1.3p (loss of 9.7p).

The company said its mining operations in Pennsylvania, in the US, had, as expected, operated at a loss in the period, due to a shortage of long-term contracts and the falling price of spot coal. But thanks to a new contract they were profitable in October.

This trend would continue for the remainder of the year, but it was not anticipated that the profit in the second half would totally eliminate the loss in the first.

Good progress had been made in meeting undertakings, given to banks that took part in the February rescue, to repay £20m of loans from asset sales by February 1988.

Total group borrowings, excluding those related to California properties, had been reduced to £40.9m by the end of September, from £45.3m on March 31.

Gestetner predicts profits fall to £11m

Gestetner, the office equipment group, yesterday forecast that pre-tax profits would have fallen to £11.0m (£11.6m) in the financial year that ended on November 1. A shareholders' circular outlined a proposed share issue end shift of management control to AFP Investment Corporation.

EMAP beats Euromoney in £2m bid for MEED

By Charles Batchelor

EMAP, the magazine, newspaper and publishing group, has acquired Middle East Economic Digest (MEED) a weekly business magazine, for £2m.

EMAP is understood to have won MEED against rival approaches from Euromoney, the financial publishing group and from MEED's own management.

This is the latest in a series of acquisitions by EMAP which earlier this week announced pre-tax profits had risen 33 per cent to £5.6m in the six months ended October 1986.

It was recently engaged in talks with Courier Press Holdings and offered to pay £18.5m for the newspaper publisher and general printer but this was rejected as being insufficient.

Euromoney said it was keen to make acquisitions but the price being sought by MEED was too high. Euromoney recently launched a Japanese language digest of its other magazines and has two more magazines "on the stocks."

Turner & Newall has near 40% of AE

BY DAVID GOODHART

Turner & Newall, which is competing with Mr Robert Maxwell's Hollis Group for control of engineering group AE, has received acceptances for just under 10 per cent of AE to add to the 29.9 per cent it already owns.

The final bid does not close for another week but T&N will be quite happy that it has reached close to 40 per cent at this stage. The company pointed out that of the 10 per cent acceptances only 6 per cent represented commitments from the holders of 14 per cent of AE who pledged provisional support to T&N when it made its final offer two weeks ago.

However, the 14 per cent provisional support was made before Hollis increased its agreed offer for AE to 280p cash per share.

That offer values AE at about £280m, but thanks to a recent rise in the T&N share price its competing cash and share offer also values AE at about £280m.

AE is continuing to press the issue of T&N's alleged exposure to continuing asbestos claims. It has already criticised T&N for refusing to publicly quantify outstanding asbestos claims against it.

T&N did qualitfy the claims at £2.8bn in but has subsequently stated that any figure would be "meaningless" as it receives so many claims which turn out to have nothing to do with it.

T&N also stressed that now insurers are paying up and the Wellington agreement in the US has established a system for defendants to share costs and damages the ongoing costs are down to less than £5m a year.

However AE said last night that property claims against T&N are not covered by the Wellington agreement.

A spokesman for AE said: "We know that in the US a number of companies heve filed for Chapter 11—voluntery liquidation—on the basis of thei rexposure to asbestos related claims. Manville Corporation in particular has said that it estimates its exposure at $112bn of which $30bn relates to property damages claims. These figures are indisputable in fact they form part of the Corporation's Chapter 11 filing. T&N must be in a position to similarly quantify its level of exposure."

Mr Colin Hope, managiog director of T&N, replied that many property claims against the company had already been dismissed.

BOARD MEETINGS

TODAY

Interims: Business Mortgages Trust, Estates and Agency, Ferranti, Headlam Sims and Coggins, Leopold Joseph, Lewmar, Merrydown Wine, R. Smallshaw (Knitwear), Alfred Walker.

FUTURE DATES

Interims—	
Arlen	Dec 1
BTP	Dec 10
Braithwaite	Dec 15
Castings	Dec 4
Dee Corporation	Dec 11
Edbro	Dec 5
Feedback	Dec 4
Holden Hydroman	Dec 4
Monks and Crane	Dec 2
Northamber	Dec 3
Parkdale	Dec 5
Vinten	Dec 8
Finals—	
Harvard Securities	Dec 2
Mecca Leisure	Dec 17
TSB	Jan 29
United Spring and Steel	Dec 3

KEEPING THE LION'S SHARE

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"I have never felt more confident that our position of number one in the market place is totally secured. Our turnover and profit for the first ten weeks of this year are ahead of those for the same period last year and I see no reason why the year should not once again be highly successful."

David Wickins

RESULTS IN BRIEF

	1986 £'000	1985 £'000	% Increase
Auction Proceeds	1,679,308	1,548,918	+8%
Pre-tax profit	13,834	10,135	+36.5%
Dividend per share	4.50p	3.25p	+39%
Earnings per share	10.32p	8.82p	+17%

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MERCURY INTERNATIONAL GROUP plc

UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 30th SEPTEMBER 1986
INTERIM DIVIDEND
PROPOSED MERCURY ASSET MANAGEMENT SHARE OFFER

	6 months ended 30th September 1986 £000	1985 Adjusted pro forma £000
Profit before taxation but after transfers by the S. G. Warburg & Co. Group to inner reserves	38,115	*44,900*
Earnings attributable to Ordinary shareholders	23,966	*24,500*
Earnings per share	16.4p	*16.8p*

An interim dividend of 3p per Ordinary Share will be paid on 17th December, 1986 to Ordinary shareholders on the register on 12th December, 1986.

Disclosed capital and reserves have increased by £37.5 million to £349.3 million (*31st March, 1986 pro forma £311.8 million*). Total disclosed capital resources now exceed £485 million.

In the first period of trading of Mercury International following the completion of the merger, the Group achieved outstanding increases in the results of asset management, corporate finance, foreign exchange dealing, stockbroking and international equity business in London and overseas. These were outweighed by disappointing results in fixed interest and U.K. equity trading and treasury operations, while general banking, overseas advisory and Stock Exchange money broking activities maintained steady progress.

Over the 18 months to 30th September, 1986 we have invested more than £40 million in capital equipment and non-recurring development expenses for our merged and expanded operations. Development expenses of £7 million have arisen during the period under review and, after deducting related tax relief, have been charged direct to inner reserves.

We are working on proposals to give Mercury International shareholders the opportunity to invest directly and separately in Mercury Asset Management. We envisage an offer early next year of around 25 per cent. of that company's share capital in conjunction with a listing. These arrangements will unequivocally demonstrate the independence of Mercury Asset Management from the other activities of the Group.

It is too early to form a reliable view of the likely out-turn for the year and the results of our expanding securities activities will inevitably be less predictable in a time of increasing competitive pressure. Looking back at the short period since our merger became effective, we can see every sign that we have opened the way for a constructive and creative future.

DAVID SCHOLEY
Chairman

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28th November, 1986

UK COMPANY NEWS

Chrysalis makes £5.3m and set for growth

SECOND-HALF profits from the Chrysalis Group came to £2.89m bringing the total for the year ended June 30 1986 to £5.31m. The final dividend is 3.6p to make 5.6p net.

Chrysalis is an entertainment and leisure services group. It came to the Stock Market in July 1985 at 200p per share after merging with Management Agency and Music, the company which ran the Tom Jones, Engelbert Humperdinck and Gordon Mills interests.

The profit was about £300,000 down on what would have been the comparison for last year, reflecting a write off on the cost of children's television cartoon characters, explained Mr Chris Wright, the chairman.

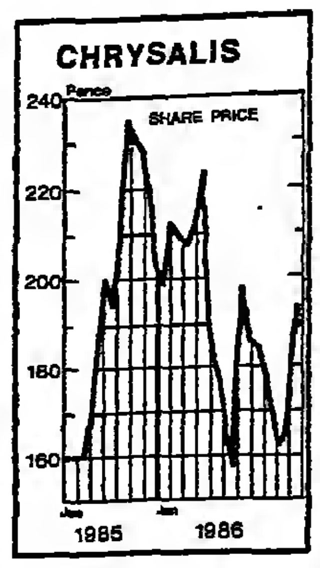
He said that during the last two years the group had invested more than ever in new talent and the results of that were reflected in the results.

All operating divisions were trading ahead of budget and he was confident that the current year's results would show a substantial advance.

In total, Mr Wright expected record and music publishing to represent around half the group's profit for the current year, but said the aim was to ultimately get the split down to a third as the other interests build up.

"We have identified a number of potential leisure-based acquisitions and intend to use the proceeds of the recent Kingsmead Hotels disposal (total proceeds were £15.6m) as the basis for expansion," he told shareholders.

Mr Wright confirmed that Mr Richard Branson's Virgin Group held a stake of around 3.6 per cent in Chrysalis. But, controlling himself more than 50 per cent of his company's shares, he said there were no talks on possible link-ups.



Group turnover amounted to £82.87m. The former MAM companies contributed £30.33m turnover and £1.24m pre-tax profit—comparisons given were for the 11 months ended June 30 1985 in respect of MAM only and showed turnover £28.5m and profit £875,000.

Breaking down this year's profit Mr Wright said records and publishing made £3.1m, agency and promotion £73,000, amusement machines £1.39m, and studio facilities loss £129,000. Other activities produced a profit of £1.94m with £1.7m from property and £250,000 from the successful promotion of the Max Headroom computerised television pop hero.

Group tax for 1985-86 was £2.1m and minorities £29,000 leaving the net profit at £3.18m, for earnings of 12.1p. There were extraordinary debits of £114,000.

● comment

Like Virgin, Chrysalis did not have the happiest of starts to its stock market life. And while the two companies are inevitably going to be compared, the difference between Mr Branson's retail inspired group and Mr Wright's artist management centred operation is sharp. However, the market may still be inclined to say that Max Headroom, Debbie Harry, Billy Idol and Huey Lewis all sound impressive but just what are they doing for profits? From an artists' roster about a third the size of Virgin's, Chrysalis made £1.3m compared with over £20m. Elsewhere Air TV (formerly Research Recordings) lost £322,000 pushing the facilities division into the red and the proceeds from the Kingsmeade Hotels sale leaves the group ungeared. Mr Wright plans to plough some £10m into buying an amusement machine related business. Apparently Chrysalis' attitude to diversification is not to rush out and add to the artists roster but to build up other legs of the company while aiming to sign up on a worldwide basis the best of the new acts. For this year £7¼m should be possible of which £½m will come from loss elimination. The shares at 189p are on a prospective rating of just under 10.

Freshbake expands and seeks listing

Freshbake Foods Group, manufacturers, processors and distributors of frozen and chilled foods, has announced a £577,000 improvement to £2.21m in pre-tax profits for the six months to September 27 1986. The comparative figures have been restated to take account of the acquisitions of Slaters Food Products, Uncle Wong Food Products and Priory Farm Foods.

All sectors of the group traded strongly during the period and the directors view the future with confidence. The new acquisitions also performed well with Slaters producing a £255,000 improvement to £860,000 in pre-tax profits and Priory Farm up from £178,000 to £206,000.

The chilled food distribution business of McKellar Foods in Scotland, in which the group has a 51 per cent equity interest has continued to improve sales and profitability from new listings. Further planned capital expenditure within approved grant assistance levels should result in a further improvement in profits next year.

Meantime Freshbake, which is now ranked as one of the top four frozen food manufacturers in the country, is to seek a full listing for its share capital. The interim statement said that the board expected to make application for the issued share capital, dealt in on the USM since September 1983, to be admitted to the Official List "in the very near future."

Turnover of the group in the six months was up from £55.2m to £65.4m and operating profits were £2.71m (£2.11m). After tax of £730,000 (£499,000), interest of £494,000 (£472,000) and minorities of £47,000 (nil), attributable profits are £1.44m (£1.14m).

Stated earnings are 3.37p (2.59p); the interim dividend has been raised from 0.6p to 0.7p.

The results excluded extraordinary items totalling £354,000 principally in respect of estimated acquisition costs of Slater and reorganisation costs of £98,000.

● comment

The last time Freshbake Foods went on a spending spree it blundered badly. The acquisition targets of 1984-85 took much longer to assimilate than originally expected. Nothing daunted, Freshbake bought its fellow USM stock, Slaters, in August. Thus far all has gone well. There were no skeletons lurking in the Slaters closet and the company is confident that its integration will be completed by the end of March, bang on schedule. Thereafter the benefits of rationalisation and economies of scale should begin to flow through. The City seems to agree. Freshbake's shares have risen steadily since the Slaters announcement—although lingering rumours of a Hillsdown bid have helped—but fell on profit-taking by 5p to 126p yesterday. Graduation to the main market may add a fillip in the short term, but with projected profits of £6m for the full year, Freshbake's shares look fairly valued on a prospective p/e of 14.5.

Property Invest.

On November 26 1986 Chase Corporation, an associate of Wingate Property Investments, purchased 1,716,000 ordinary shares in Property Holdings Investment Trust at 165p each.

Hazlewood acquires UK tomato grower for £9m

Hazlewood Foods, the acquisitive food group, has announced a further addition to its salad range with the purchase of Van Heyningen Brothers, the largest grower and packer of tomatoes in the UK, for £9m.

Hazlewood has pursued a consistent strategy of purchasing small privately-owned foods companies and only a week ago, it announced the acquisition of Ken Perrett (Evesham), a grower, merchant and distributor of salad and root crops for an initial consideration of £400,000. At the same time, the group announced interim pre-tax profits 91 per cent higher at £6.36m.

Kanes (beetroot processors) and Crispa (cress and beansprout growers) are already part of the Hazlewood group and supply supermarkets with fresh produce via its chilled distribution fleet.

(SI)

The consideration will be satisfied by the placing of around 3.5m Haslewood shares, to raise £5.1m net of expenses, and the allotment to the vendors of just over 2.5m shares, of which 1.47m must be retained until March 1 1988.

Further consideration will be payable dependent on profitability but if profits fail to reach £1.38m in the year to December 31, the vendors will repay 6.5 times the amount of any shortfall. In 1985, Van Heyningen's pre-tax profits were only £625,000 because of extra heating oil costs, but this year the company is expected to return to 1984's level of profitability, when it made just over £1.5m.

Slight fall for Circaprint

Circaprint Holdings, the USM-quoted maker of plated through-hole circuit boards, produced slightly lower pre-tax profits for the year to August 31 at £827,000 (£836,000) on a higher turnover of £8.51m (£7.35m).

The directors said improvements to the Aylesford and Exmouth plants and development of the new factory came too late to benefit this year's figures.

But invoiced sales and order intake were running at record levels and margins had improved early in the new financial year.

Circaprint was the only major company to manufacture and fully test multilayer, plated through hole and conventional boards which could be fully assembled at its own factory, said the directors.

They foresaw a growing demand for conventional boards with selective solder-coating due to the advent of surface mounted components.

Operating profit was down at £845,000 (£858,000), rents and other income remained at £13,000 and interest payments dropped to £231,000 from £235,000.

After higher tax of £209,000 (£148,000) earnings per share were lower at 7.9p (9.3p). But the directors declared a higher dividend of 1.278p on ordinary 10p shares, against last year's 1.05p.

Southwest Resources

Southwest Resources, the oil, gas and mineral exploration group, yesterday warned that it was likely to make a substantial provision this year against its book cost investment in William Hunt, Holdings, a listed Hong Kong company.

The company said that Hunt, in which it holds a 26 per cent stake, had performed very poorly. However, a proposal to raise HK$70m in new equity was under consideration, which might lead to a recovery.

In Southwest's last annual accounts to March 31, 1986, it was noted that the market value of the investment was £1.29m and the book value £9.91m.

Oriflame's stake

Oriflame International now holds a total of 2,038,947 Goldsmith's ordinary (14.28 per cent) all registered in the name of Strand Nominees.

Cater Allen

Ensign Trust has purchased a further 150,000 ordinary shares in Cater Allen Holdings, raising its stake from 5.4 to 6.18 per cent.

Beazer

C.H. Beazer (Holdings) PLC

has completed the acquisition of

Gifford-Hill & Company, Inc.

County Limited

advised on the transaction and underwrote a £180 million rights issue to fund the acquisition

National Westminster Bank PLC

provided a £200 million loan facility pending receipt of the rights issue proceeds

Alex Brown & Sons
Incorporated

acted as the Dealer Manager in the U.S. for the purpose of the tender offer

28th November 1986

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November 1986

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The NatWest Investment Bank Group

November 1986

Anglovaal Group

DECLARATION OF ORDINARY DIVIDENDS

Dividends have been declared payable to holders of ordinary shares registered in the books of the undermentioned companies at the close of business as shown. The dividends have been declared in the currency of the Republic of South Africa and payments from London will be made in United Kingdom currency. The dates for determining the rate of exchange at which the currency of the Republic will be converted into United Kingdom currency will be the dates as shown, or such other date as set out in the conditions subject to which the dividends are paid. These conditions can be inspected at the registered office or office of the London Secretaries of the companies. Warrants in payment of the dividends will be posted on or about the dates as shown. The transfer books and registers of members of the companies in Johannesburg and London will be closed during the periods as shown. All companies mentioned are incorporated in the Republic of South Africa.

Name of Company	No.	Interim dividend declared Cents per share 1986	1985	Last date for registration	Date of currency conversion	Transfer books and registers closed (both dates inclusive) From	To	Warrants posted on
INTERIM DIVIDENDS— YEAR ENDING 30 JUNE 1987								
Eastern Transvaal Consolidated Mines Limited Reg. No. 01/06442/06	73	125	100	19.12.86	29.12.86	20.12.86	24.12.86	30.1.87
Hartebeestfontein Gold Mining Company Limited Reg. No. 05/33926/06	62	60	45	19.12.86	29.12.86	20.12.86	24.12.86	30.1.87
Middle Witwatersrand (Western Areas) Limited Reg. No. 05/04469/06	69	60	55	2.1.87	12.1.87	3.1.87	9.1.87	6.2.87
Zandpan Gold Mining Co Ltd Reg. No. 55/02414/06	29	10	7.5	2.1.87	12.1.87	3.1.87	9.1.87	6.2.87

By order of the boards
Anglovaal Limited
Secretaries/Transfer Secretaries
per: E. G. D. Gordon

Registered Office:
Anglovaal House
56 Main Street, 2001 Johannesburg

London Secretaries
Anglo-Transvaal Trustees Limited
295 Regent Street, London W1R 8ST

27 November 1986

UK COMPANY NEWS

Carless profits drop 79% after oil price collapse

BY LUCY KELLAWAY

Carless, Capel and Leonard, the independent oil exploration company, yesterday announced a 78.7 per cent fall in pre-tax profits from £2.7m to £573,000 for the six months to September. Like the rest of the exploration sector, Carless has been bard hit by the collapse in the oil price, although unlike mostof the other independents, it is maintaining its interim dividend at 1p.

Mr Ian Clubb, managing director, said yesterday that as a result of the recent increase in the eil price and more stable conditions "downstream"—in refining and marketing—results for the full year sheuld be "much improved."

During the first six months the company's borrowings were sharply reduced as a result of the acquisition of the Winterbottom Energy Trust and sale of surplus assets, with the result that gearing fell from 90 per cent to 40 per cent.

Downstream, the company suffered heavy stock losses of £1.5m, which depressed profits to £681,000 compared to £2.5m in the first half of last year. Margins in the solvents remained under pressure, although were improved in fuel marketing and distribution.

Upstream in the UK last year's small profit was turned into e small loss, although this divisio nremains a tiny proportion of total revenues.

Turnover during the first half fell by 40 per cent to £47.7m (£80m), while the operating profit dropped from £5.7m to £2.1m. The interest eharge fell from £3m to £1.5m, and the tax charge rose slightly te £521,000. An after tax profit of £52,000 compared to £2.4m last time, although profit after allowing for extraordinary gains on asset sales was £1.7m. Earnings per share were 0.1p (3.1p).

As an alternative to the dividend, shareholders are being offered a scrip dividend.

● comment

With the nice fat cushion of cash provided by property sales and e shrewd deal with Winterbottom, Carless finds itself eble to look beyond a difficult first half, and maintain its dividend. Were it not for that, shareholders might find little to please them in these results. Whils the majors have been creaming off big profits downstream this year, Carless, even after making allewance for disappointingly large stock losses, has not seen mnch benefit in its secluded market niches. With the prohlems of LTV still unresolved, Carless has been unfairly dealt yet another problem not of its own making—a possible shortfall in reserves at Humbly Grove. However, even if prodnction continues at the slower rate, any dip in cashflow should not be too painful, as Carless is now strong enough not only to withstnd more than its share of bad lnck, but also to provide for the heavy cost of developing Wytch Farm. The prospect of profits this yesr of £2.5m interests the City less than what Opec will get up to next month.

Sedgwick increase despite weak quarter

SEDGWICK GROUP, the insurance and reinsurance broker, reported a small increase in pretax profit in the nine months to September 30, 1986 but said that despite a weak third quarter it still expected to complete the year by achieving an edvance on 1985 results. It said that in December it would be establishing a sponsored American Depository Receipts facility.

Profits in the nine months moved ahead to £118m from a restated £110m on revenue of £476m, np more than 8 per cent from last time's £439m.

Mr C. M. Mosselmans, Sedgwick chairman, said that during the period profit had been affected by the increased cost of errors and omissions insurance and the provision for possible doubtful debts which the group made reflecting its view of the instability of certain insurance markets.

Exchange rate fluctuations, particularly with regard to the US dollar, had e substantial adverse effect on profit compared with 1985.

He said that in the nine months the group did not benefit from a contribution from the Lloyd's managing agencies whieb were divested in 1985. But he sdded that on November 3 the groop had completed its acquisition of the Crump Companies the results of whieb would he included from that date.

After tax of £44m (£40m) earnings per share came through at 18.7p, down from an adjusted 19p.

Bulgin helped by lower division costs

LOWER exceptional costs of £25,000 against £118,000—relating to the creation of the power conversion division—have left taxable profits of A. F. Bulgin & Co, manufacturer of electronic and electrical components, ahead from £150,000 to £180,000 for the half year ended July 31 1986.

The directors said that with the benefits of previous actions now starting to show through and further significant restructuring of operations about to take place, they looked to the year ahead with confidence.

In the latest phase of overall development the directors said it was necessary to continue investment in modernising production and warehouse facilities and therefore felt it wise to withold payment of an interim dividend — last year's single, final payment was 0.1p.

Turnover for the six months was £4.62m (£4.48m) while after the tax charge of £72,000 (£76,000) earnings were shown as 0.38p (0.26p) per 5p share.

North British Steel recovers more ground

North British Steel Group (Holdings), steel founder and engineer, made further recovery in the six months to September 27 1986 and reported a pre-tax profit for the full year of £104,000 (£63,000 loss) from reduced turnover of £13.28m (£14.19m).

Under terms of the capital reconstruction no dividend can be paid prior to April 1 1987.

The directors stated that market conditions would remain fiercely competitive and volume would probably still decline, but steps taken should ensure that the order book is at least maintained. Action would continue to be taken to increase productivity and rednce costs and this should result in a further improvement in results in the year to come.

Profits were arrived at after charging exceptional costs of £267,000 (£132,000) and interest of £282,000 (£266,000); there was no tax charge. Stated earnings per 25p share were 2p (loss 1.2p).

Clay Harris on Bellair's plan to regain a listing

Suspended animation

BELLAIR COSMETICS, the stock market's nine-month wonder of 1983, is finding new life in limbo, nearly three years after trading in its shares was suspended following e speculative spiral from 17p to £13⅝.

Mr Charles Keep, chairman, now has his sights set on regaining a market listing by the end of next year after rebuilding Bellair's toiletries business and deflating any remaining illusions shareholders might have about the value of their original investment.

Bellair shareholders will today approve e £2.3m rights issue, the second since suspension in January 1984, to fund the company's participation in a joint venture that will market L'Oreal cosmetics and toiletries in Turkey.

Bellair has already closed its sole manufacturing plant, in Winsford, Cheshire. It now employs only 21 people in the UK, engaged exclnsively in selling a reduced range of hair and hand-care products.

"We're completely rebuilding the company from top to bottom," Mr Keep says. "Anyone can take a shell and put another business in it. I'm bringing it back without a change of activity."

Mr Keep, a former group managing director of Tozer Kemsley & Millbourn, the motor group, joined Bellair shortly after the suspension. He will today name a new managing director.

Bellair was e classic case of high bepes in a thin market. Only 600,000 shares were outside the control of Mr Mehmet Tecimer, brother-in-law of Mr Asil Nadir, chairman of Polly Peck, the international trading group with its own history of sharp swings in share price.

The fewer hard fects punters had ebout what business ties might lie behind the famiy connection, the higher they chased the shares.

"The Polly Peck syndrome was right et its peak," Mr Keep says. "The difference here (at Bellair) was that there was nothing behind it."

Bellair had been losing money since reporting a pre-tax profit of £10,000 in 1981-82 and was technically insolvent, with net worth of £400,000 and borrowings exceeding £1.2m.

Mr Tecimer kept the company afloat with unsecured loans that were converted into equity in last year's rights issue.

After extraerdinary charges for the prospective costs of redundancies and a halving of the book value of the Winsford plant, Bellair's losses soared to £966,000 in 1984-85 from £228,000 in the previous year. In the six months to April this year, it lost £407,000 on turnover of £980,000.

The balance-sheet surgery has eent an unambiguous message to shareholders, giving any "who thought their shares were worth £13.50 the realisatinon that they were only worth par (10p)," Mr Keep says.

Indeed, he estimates net assets of £2.3m, even after the injection of £4.5m in two rights issues. At suspension, the market value exceeded £34m.

Sharebelders who have taken up full rights in the two issues will own 18 Bellair shares for every one held before suspension. The post suspension 17 will bave cost a total of £1.70.

For some, that will be cost-averaging with e vengeance. For Mr Tecimer's Liechtenstein-based Wasskon Establishment, however, every share bought at 10p ectually increases the average cost: its 76 per cent stake (to be reduced to 50.7 per cent in the latest issue) was bought at 8p.

Mr Tecimer's role as director is completely non-executive, Mr Keep insists, but the link with Polly Peck has come into the open. Bellair operates from Polly Peck's London heedquarters, paying £25,000 to £30,000 annual rent; and Polly Peck is e minority partner in the L'Oreal venture, brought in for its expertise in the Turkish market.

In Britain, all manufecturing is done by six subcontractors. Having inherited an outdated range—inclnding aerosol hair sprays suitable for 1960's beehives—Mr Keep has tried to steer Bellair into higher unit-valne products.

Its most crucial test of confidence will come when it eppliee for rellisting. The Stock Exchange originally suspended treding because Bellair could not explain the sharp rise in its share price.

"I think we will have met any criteria that any reasonable regulatory authority could ask, given the situation we were in," Mr Keep says.

"It's quite difficult to do a rights issue for a snspended company—twice—on your own."

He has acted without merchant bank or stockbroker but has cleared both issues with the Stock Exchange quotations department.

Bellair tries to mach bargains for any shareholders who do not want to take up their rights. Last year, it found sufficient demand for excess shares from some of the company'e 400 shareholders.

By increasing the number of shares in issue from 2.55m to almost 46m, the Bellair rights issues will have created a wider market.

"If the shares get out of hand again that's nothing to do with me," Mr Keep says.

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Public Limited Company

INTERNATIONAL ENGINEERING DESIGNERS AND CONTRACTORS

Interim Report

Summary of Group results for the nine months to 30 September 1986

Year to 31 Dec 85 £000		9 months to 30 Sept 86 £000	9 months to 30 Sept 85 £000
432,672	Turnover	377,147	294,864
	Profit on trading:		
6,800	Oil, gas, and chemical	4,748	4,814
5,523	Mechanical and electrical	4,423	4,180
(1,007)	Mining and minerals	824	(648)
636	Design and construction (note 2)	751	115
11,952		10,746	8,461
4,109	Interest receivable (net)	1,851	2,909
16,061	Profit on ordinary activities before taxation	12,597	11,370
(6,555)	Taxation	(4,728)	(5,310)
9,506	Profit on ordinary activities after taxation	7,869	6,060
9,500	Profit attributable to shareholders (note 3)	6,928	6,054
13.28p	Per share: Earnings	10.20p	8.73p
4.5p	Dividends	1.75p	1.5p

Notes:
1 The nine months' results for both years are unaudited. The results for the year 1985 are an abridged version of the audited accounts of that year which have been delivered to the Registrar of Companies; the Report of the Auditors was unqualified.
2 The IDC Group was acquired on 22 August 1985. The comparative figures include the results from that date to 30 September 1985 and 31 December 1985.
3 Profit attributable to shareholders is after charging extraordinary items of £941,000 in respect of costs of closure of certain operations.

Salient Points from the Interim Report

- Pre-tax profit up 11%.
- After tax profit up 30%.
- Earnings per share up 17%.
- Interim dividend 1.75p per share (1985: 1.5p).
- Pre-tax profit for year 1986 forecast at not less than £17.5m (1985 £16.1m).

Copies of the full Interim Report may be obtained from The Secretary,

Matthew Hall PLC

Matthew Hall House, 7 Baker Street, London W1M 1AB

Telephone: 01-935 8394 Telex: 291441

RAND MINES LIMITED

Incorporated in the Republic of South Africa

ABRIDGED CHAIRMAN'S STATEMENT

for the year ended 30 September 1986

The results for the year ended 30 September 1986 are most gratifying, considering the harsh and difficult circumstances under which all the companies in the Rand Mines Group operated.

Profits attributable to shareholders rose by 21 per cent to a new record of R134,2 million, equivalent to 1 197 cents per share. Total dividends for the year were raised by the same percentage to 425 cents per share. These improvements are remarkable considering that turnover increased by only 19 per cent.

Despite sporadic social unrest, trade union militancy and growing foreign hostility towards South Africa, the company remained dedicated to its mission of turning natural resources to account in the most responsible way, taking full cognisance of its obligations to employees and the communities within which it operates.

Notable events during the year included:
- higher safety accomplishments, with both coal and gold mines achieving notable distinctions;
- the conclusion of financial arrangements which will enable East Rand Proprietary Mines, Limited to gain access to higher grade ore reserves and to increase gold production;
- further progress by Harmony Gold Mining Company Limited towards the completion of its new No. 4 twin shaft complex;
- continued construction by Rand Mines Milling and Mining Company Limited of a second plant to recover gold from mine residues;
- progress with the development of the new Khutala and Majuba collieries;
- an opportunity for the company to broaden its sphere of activities by becoming involved in vanadium and, possibly, platinum mining;
- an ambitious educational campaign, designed to create understanding and to encourage acceptance of the free enterprise system among the Group's entire workforce;
- intensified application of the equal opportunity programme in order to prepare black workers for employment in more advanced positions; and
- completion of the investigation of the Barbrook project; the establishment of a mine is now under active consideration.

I trust that all employees, and others associated with the Group, will derive appropriate satisfaction from these accomplishments.

Economic and political developments in South Africa

The South African economy is currently in a weak state. Poor performance in key sectors, combined with uncertain domestic conditions, have prolonged the recessionary phase. Business and consumer confidence, depressed by the burden of increased taxation, is being further eroded by civil unrest.

Unemployment generally has accelerated rapidly since mid-1984. In the black community, unemployment is now much higher than in any other segment of the population. It is unfortunately true that the black community do not have the personal savings necessary to tide them over a period of long unemployment. Moreover, the limited social security available for this sector of the population then implies that unemployment is indeed an intolerable situation.

The creation of a society in which all the participants will be able to share in prosperity and stability would now clearly appear to depend on the Government's willingness to continue with the programme of political reform.

It is important and appropriate to note that much progress has already been made and we acclaim the implementation of many reform measures previously proposed by Government. However, the introduction of further required reform measures at an early date is essential.

Political and economic policy are totally inter-dependent and the evolution of future strategy must take cognisance of this fact. The business community has a role to play in encouraging the Government to continue with reform. I do not, however, accept that any useful purpose would be served by promoting a public confrontation between business and Government, and certainly not via the news media, either locally or in other countries. Far too much damage has already been done to the delicate reform process by sensational reporting and ill-conceived anti-government rhetoric.

It is totally unacceptable in this day and age that any political group should be allowed to paralyse the reform process by crude personal threats against the lives of members of the black community who participate in dialogue with the Government. I believe that it is an affront to the basic Judeo-Christian ethic for any foreign State to give succour to such political organisations.

Sanctions against South Africa are now a reality following the adoption of certain legislation by the United States and the European Economic Community. It is futile to believe that these sanctions will expedite the reform process; to hold to this belief is to demonstrate a complete failure to understand the subtleties of the South African social fabric. In fact, it is most likely that sanctions will, in the fullness of time, be shown to have been entirely counter-productive in so far as political reform is concerned.

It is certain that sanctions will result in the destruction of a significant number of jobs. Unfortunately, the jobs destroyed will be mainly in the unskilled category, and in that population group already heavily afflicted with unemployment. I believe that the net effect of the sanctions already adopted will be no more than the totally unjustifiable reduction in the wealth of the unskilled population of Southern Africa. There will be a transfer of wealth from our unskilled people to the other nations of the world, who have commodities to sell in place of those which may be eliminated from the market by the embargoes on goods of South African origin.

The poor and hungry of Southern Africa are going to become poorer and hungrier.

Results at a glance	1986 R million	1985 R million	% Change
Turnover	787,2	661,4	19
Profit before taxation	281,9	231,0	22
Profit attributable to shareholders	134,2	110,9	21
Total assets	1 653,8	1 287,6	28
	Cents	Cents	
Earnings per share	1 197	989	21
Dividends per share	425	350	21
Dividend cover (times)	2,82	2,83	
Net asset value per share*	8 728	5 637	55

*Includes listed investments at market value.

Industrial relations

The elimination of the definition of "scheduled person", the last remaining statutory job reservation based on racial classification, was the most important industrial relations problem addressed by the mining industry during the year. It is disappointing to report that the formal substitution of the term "competent person" for the racially defined "scheduled person" has not yet been approved by the Government. It is imperative that this racially discriminatory legislation be removed from the statute books as soon as possible, without substituting it with some other restrictions which are not acceptable to the black trade unions.

The Rand Mines Group welcomes the interest being taken by the trade union movement in safety matters. As long as this interest is responsible and dedicated to the well being of employees, and not motivated by extraneous posturing and particularly political ambitions, it can only be of benefit to all in the mining industry.

Prospects

During the next financial year, predictions indicate that the rand is likely to have an exchange value ranging from 43 to 46 U.S. cents. Combined with the expected gradual upward trend in the U.S. dollar gold price, an average price in excess of R28 000 per kilogram is possible during the financial year ending 30 September 1987.

Continuing uncertainties in the pricing of crude oil, and renewed concerns over the safety of nuclear power, will support growth in coal's share of the fuel market. However, greatly expanded world production of fuel resources is going to ensure that oversupply continues and real coal price rises are not expected before the early 1990s.

The Group's coal producers are fairly reliant on exports for good financial results. The introduction of sanctions by the United States, and certain other countries, will have an adverse impact on the Group's profits.

The property market is expected to remain fairly depressed during the year ahead, while the present oversupply of developed property is gradually taken up.

The essential condition for an improved outlook for the South African economy is the acceleration of the process of political reform.

The socio-political environment and the local economic malaise, combined with the effect of sanctions and embargoes, are expected to depress the Group's performance in the year ahead and profits for 1987 could be marginally lower than those reported for the year just completed.

Johannesburg — D. T. Watt
19 November 1986 — Chairman

Nature of business

The company is a South African mining and finance company, the shares of which are listed on The Johannesburg Stock Exchange, The Stock Exchange, London, and the Paris Bourse.

Its principal interests are in:
- the mining and recovery of gold and uranium;
- coal mining;
- base mineral mining;
- mineral exploration;
- forestry and timber;
- property development; and
- investment in a portfolio of listed, mainly mining, securities.

Copies of the 1986 annual report may be obtained from the United Kingdom Secretaries, Charter Consolidated Services Limited, 40 Holborn Viaduct, London EC1P 1AJ, England.

RAND MINES. BREAKING NEW GROUND EVERY DAY.


VALENTINES.
THE CHAIR.
BEECHER'S BROOK.
A GREAT BIG PILLAR.

SOME OF THE THINGS THAT GET IN THE WAY AT AINTREE BUT NEVER IN LOUISIANA.

The Louisiana racetrack sees some of the world's most exciting horse racing.

Unlike some grandstands we could mention, where some of the spectators are still left betting on the result long after the race has finished.

Great big pillars stand to obscure their view.

The ground officials agreed that this wasn't going to happen in Louisiana.

They also agreed that Pilkington was the company to make sure of it. Pilkington, after all, had built itself up to become the world's leading glass company.

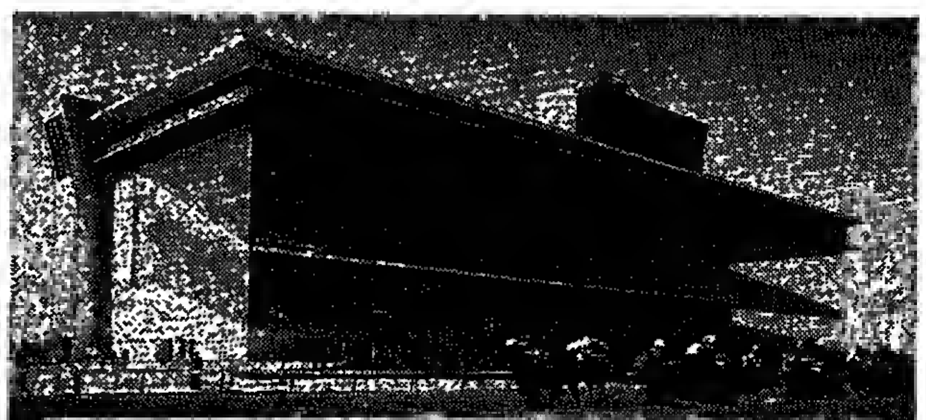
Only with Pilkington's technology could they hope to build the biggest window in the world.

So the Americans came to St. Helens and Pilkington built them their window.

Not that this has been the greatest obstacle Pilkington has overcome.

It was Pilkington that pioneered a process for making flat glass, now used to make over 90% of the world's flat glass in 9 countries including the USA.

It is Pilkington that continues to develop laminated glass to make safer windscreens, something anyone driving a General Motors, a Nissan or a Mercedes will appreciate.



LOUISIANA DOWNS RACETRACK. LOOK, NO PILLARS.

No other glass manufacturer produces as large a range of products, from flat glass to glass fibre, from ophthalmic glass for lenses to the optics for missile guidance systems.

It goes to make a worldwide turnover of around £2,000,000,000 most of which comes from abroad.

Now perhaps you can see who's first in this particular field.

PILKINGTON

The world's leading glass company.

This advertisement complies with the requirements of The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited.

3i

Investors in Industry International B.V.

(Incorporated in The Netherlands with limited liability)

ECU 50,000,000

7⅞ per cent. Guaranteed Notes 1993

unconditionally and irrevocably guaranteed by

Investors in Industry Group plc

(Incorporated in England under the Companies Acts 1948 to 1967)

Issue Price 101⅜ per cent.

The following have agreed to subscribe or procure subscribers for the Notes:—

S. G. Warburg Securities

Banque Paribas Capital Markets Limited	Kredietbank N.V.
Banque Bruxelles Lambert S.A.	Crédit Commercial de France
Generale Bank	Société Générale
Algemene Bank Nederland N.V.	Barclays de Zoete Wedd Limited
County NatWest Capital Markets Limited	Creditanstalt-Bankverein
Dresdner Bank Aktiengesellschaft	Kleinwort Benson Limited
Lloyds Merchant Bank Limited	Samuel Montagu & Co. Limited
Morgan Grenfell & Co. Limited	The Royal Bank of Scotland plc

Swiss Bank Corporation International Limited

Application has been made to The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited for the Notes (in the denominations of ECU 1,000 and ECU 25,000 each) to be admitted to the Official List. Interest is payable annually in arrear on 15th December, *the first such payment being due on 15th December, 1987.*

Particulars of the Notes are available in the Extel Statistical Services. Copies of the Listing Particulars may be obtained during normal business hours on any weekday up to and including 2nd December, 1986 from the Company Announcements Office of The Stock Exchange and up to and including 12th December, 1986 from:—

Hoare Govett Ltd.,
Heron House,
319-325 High Holborn,
London WC1V 7PB.

Investors in Industry Group plc,
91 Waterloo Road,
London SE1 8XP.

28th November, 1986

UK COMPANY NEWS

Clay Harris looks at the tug of war takeover for LCAH

Poster men aim to raise their sites

THE TAKEOVER battle for London & Continental Advertising Holdings involves far more than the fate of a one-time pacesetter now fallen upon hard times.

The future shape of the British outdoor poster market is at stake in the tug of war between MAI, LCAH's closest domestic rival, and Griffin Group, the dominant force in the Australian industry.

In an initial skirmish last week, the Australians seized the high ground by winning management control and access to a 29.9 per cent stake through their underwriting of a £7.4m rights issue.

MAI, however, has pressed on with its full takeover bid, which values LCAH at nearly £35.8m, and moved to allay fears that its embrace would lead to a Monopolies Commission reference.

LCAH's former directors cited this uncertainty when they continued to support the Australian rescue even though they preferred MAI's terms and would have received more for their own holdings under them.

The Office of Fair Trading has indicated that it will make its recommendation on the proposed MAI-LCAH merger by the end of next week. MAI has arranged several disposals in an effort to make the takeover more palatable to competitors and regulatory authorities.

UK poster contractors as a whole are only now recovering from the fragmentation which followed the break-up of British Posters, a selling consortium which fell foul of the Monopolies Commission in 1981.

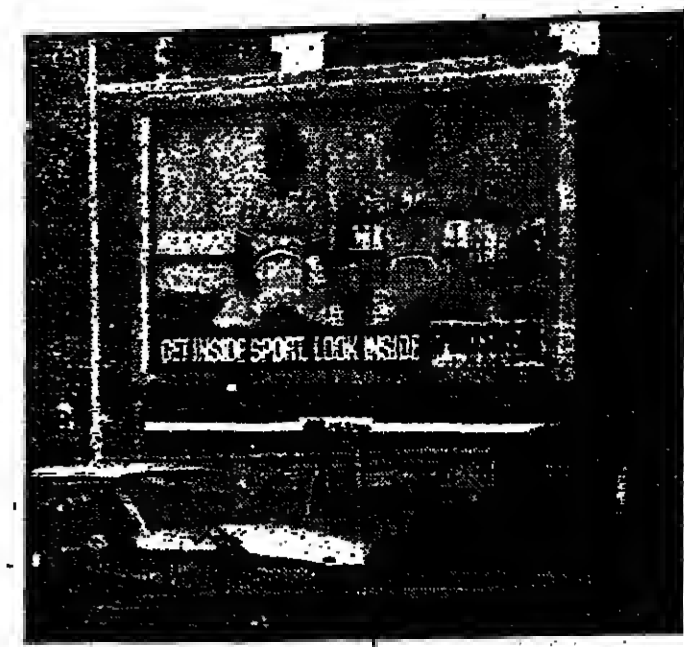
Rates have failed to keep pace with inflation as advertising agencies and clients began to pick and choose poster sites rather than simply accept what the contractors offered.

A new tier of intermediaries — outdoor specialists — developed to help agencies put together the right poster network for a campaign. Using their expertise (often gained at British Posters), they help advertisers to target specific audiences, even if posters have to be secured from several contractors.

Over the longer term, the market itself has become more fluid. Ten years ago, two-thirds of all sites were booked year-round, largely by tobacco and alcoholic beverage advertisers. Only 15 per cent of sites are now booked on this "until countermanded" basis.

Advertisers are now able to launch "national" campaigns — such as the Government's new warnings about Aids — at very short notice. The selling of posters has become much more specialised; they are no longer a commodity sold by the square foot, almost regardless of location.

Contractors have responded by sponsoring detailed audience research of poster sites and putting together their own ad hoc selling networks. They have also moved to add value to conventional sites by including eye-catching features such as three-dimensional elements and animation.



Poster contractors are squeezing more profits out of prime sites like Cromwell Road, London, by installing moving multi-display units.

LCAH, which has more square feet of roadside posters than any other contractor, failed to take full advantage of its position, according to Mr John Lawrenson, one of its new directors.

Mr Lawrenson, group general manager of Griffin subsidiary W. R. Carpenter, said that LCAH had "lost sight of some of the basics" and failed to improve the value of its sites through introducing new technology.

Poster contractors are supplying "the picture frame in an art gallery," Mr Lawrenson said. "It is the advertiser's window on the world. It has to be in an eye-catching location from the motorists' point of view."

MAI, the financial services and media group which operates as Mills & Allen in the poster business, is pursuing LCAH to fill in the weak spots in its national network.

A takeover would give MAI additional strength in London and the south-east, the Midlands and the north-west. It would add to its inventory of prime 48-sheet (20 ft wide by 10 ft high) sites, increasingly the most popular size.

MAI says that agreed disposals, subject only to the success of its bid, would reduce the combined group's share of the roadside market to 28 per cent, measured by revenue. By a wider definition, including transport advertising on buses, trains and station platforms, the share would drop to 19 per cent.

Arthur Maiden is to pay [illegible] to £12m for a large portion of LCAH's poster business and Primesight has agreed to buy almost all of the small 4-sheet (3 ft 4 in wide by 5 ft high) sites of the combined group.

The takeover and redistribution would help to create three strong poster companies, MAI, More O'Ferrall/Adshel and Arthur Maiden, able to compete in offering national campaigns, says Mr Clive Hollick, MAI director.

It would also boost Primesight, formed initially in a management buy-out from W. [illegible], into contention in the [illegible] market with Adshel, the bus shelter specialists.

Rivals, however, are more concerned about the geographical distribution and mix of poster sizes than the combined group's proportion of revenue.

One says bluntly, but not for attribution, that it does not want the number of major players to be reduced by an MAI takeover of LCAH.

For the competitive health of the market, agrees Mr Lawrenson, "it's absolutely essential that London & Continental retains its identity."

Mr Hollick argues, however, that a "sick member" is bad news for other contractors. "Recovery would be so prolonged that it would create problems for the rest of the market."

Whether or not LCAH retains its independence, the old order has changed. Mr John Golfar, chairman, and Mr David Harris, deputy chairman respectively, resigned as directors as part of the deal with Piccadilly House, Griffin's UK subsidiary.

They had founded the company in 1974 as a specialist in hotel showcase displays and subsequently moved into airport advertising and specialist publications.

LCAH became a pioneer on the Unlisted Securities Market in 1979 with the reverse takeover of Associated Tea Estates of Ceylon, a former shell plantation company. It moved to a full listing when it bought London & Continental from Reed International for £18m in 1984, and carved out a leading role in stadium advertising.

Expansion and profits growth came to a grinding halt in the first half of this year, when LCAH reported a £1.36m pre-tax loss against profits of £1.41m for the comparable half and £3.5m for 1985 as a whole.

Mr Golfar said in September that LCAH had expanded its marketing, business development and computer services staff in expectation of a strong increase in bookings which never materialised.

LCAH brought in Mr Christopher Perry, former head of the South African Hunt Leuchars and Hepburn group, as chief executive. It then set the stage for the Piccadilly House rescue which was upstaged — at least temporarily — by MAI.

MAI narrowly failed to block the Piccadilly proposals last week. A motion to adjourn the shareholders meeting for a fortnight was lost by only 288,256 votes out of 12.9m cast. MAI, which held 24.6 per cent of ordinary shares and 12.4 per cent of convertible loan stock before the rights issue, was unable to vote some 366,000 shares which it had recently acquired.

The initiative now rests to a certain extent with LCAH. The new board has not responded to MAI's suggestion that it would recommend the 118p cash offer within a few days.

More attention will be directed, however, to see whether the disposals arranged by MAI will be sufficient to avoid a Monopolies reference.

LEADING ROADSIDE POSTER CONTRACTORS

	Market share* (%)
London & Provincial (LCAH)	21.9
Mills & Allen (MAI)	21.5
More O'Ferrall/Adshel	18
Arthur Maiden	12
National Solus Sites (Allam)	9

* By sheetage area, Jan/June 1986. Source: Outdoor Advertising Association.

Depreciation and interest hit Viewplan profit

Higher depreciation and interest charges have eaten into the profit of Viewplan for the half year ended September 30, 1986. It fell from £367,000 to £230,000 pre-tax.

The company is a USM quoted hirer of broadcast and non-broadcast equipment. Earlier this month it became the subject of an agreed bid from Trilion.

Turnover in the period rose from £1.85m to £4.53m and trading profit from £887,000 to £1.14m. However, depreciation was up to £670,000 (£450,000) and interest to £254,000 (£70,000).

Earnings came to 1.38p (2.32p) per share and the net interim dividend is again 0.42p, as forecast.

There was an extraordinary credit of £113,000 arising on the disposal of Fineplane, after costs and CGT.

Millward Brown improvement

Millward Brown, USM quoted market research agency, raised pre-tax profits from an adjusted £560,000 to £708,000 in the six months to September 30 1986 on turnover of £4.47m, against £3.28m.

The company said that both continuous tracking studies and the ad hoc business continued to expand and a satisfactory result was anticipated for the year.

Earnings per 10p share were 7.3p (5.3p) and the interim dividend is 1.25p net (1p for 5 months period).

I.G. INDEX
FT for December
1,283-1,290 (−3)
Tel: 01-828 5699

NOTICE OF EARLY REDEMPTION

U.S. $50,000,000

ÖSTERREICHISCHE LÄNDERBANK AKTIENGESELLSCHAFT

(Incorporated in the Republic of Austria with limited liability)

Floating Rate Subordinated Notes Due 1994

NOTICE IS HEREBY GIVEN to the Noteholders, that in accordance with Clause 7(b) of the Terms and Conditions of the Notes, the Bank will redeem all of the Notes at their principal amount on the next Interest Payment date falling in November 1989.

Payment of the principal and accrued interest will be made on or after the Redemption Date at the specified office of any of the Paying Agents listed below against surrender of the Notes together with all unmatured Coupons.

Payment of interest on each Registered Note will be made by dollar cheque and mailed to the holder of such Note.

Notes, whether in bearer or registered form, and Coupons will become void unless presented for payment within 30 years and 3 years respectively after the Relevant Date.

PAYING AGENTS
Bankers Trust Company
Dashwood House
69 Old Broad Street
London EC2P 2EE

Banque Indosuez Belgique
(Formerly Banque du Benelux SA)
Rue Des Colonies 40
1000 Brussels

Banque Indosuez Luxembourg
39 Allee Scheffer
Luxembourg

Bankers Trust Company
Corporate Trust and Agency Group
Four Albany Street
New York NY 10015

Swiss Bank Corporation
Aeschenvorstadt 1
CH-4002 Basle

Upon the due date of Redemption of any Bearer Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect thereof. Where any Bearer Note is presented for redemption without all unmatured Coupons relating thereto, redemption shall be made against the provision of such indemnity as the Bank shall require.

Bankers Trust Company, London — Agent Bank

28th November 1986

THE KINGDOM OF DENMARK

£100,000,000

Floating Rate Notes due 1998

In accordance with the provisions of the Notes and the Agent Bank Agreement between The Kingdom of Denmark and Citibank, N.A., dated 22 November, 1983, notice is hereby given that the Rate of Interest has been fixed at 11⅝% pa and that the interest payable on the relevant Interest Payment Date, February 27, 1987, against Coupon No. 13 will be £1,465.07.

November 28, 1986, London
By: Citibank, N.A., (CSSI Dept.), Fiscal Agent CITIBANK

Bank of Tokyo (Curaçao) Holding N.V.

U.S.$100,000,000

GUARANTEED FLOATING RATE NOTES DUE 1997

Payment of the principal of, and interest on, the Notes is unconditionally and irrevocably guaranteed by

The Bank of Tokyo, Ltd.

(Kabushiki Kaisha Tokyo Ginko)

In accordance with the provisions of the Agent Bank Agreement between Bank of Tokyo (Curaçao) Holding N.V., The Bank of Tokyo, Ltd., and Citibank, N.A., dated November 27, 1985, notice is hereby given that the Rate of Interest has been fixed at 6·325% p.a. and that the interest payable on the relevant *Interest Payment Date, February 27, 1987, against Coupon No. 5 will* be U.S.$159·88.

November 28, 1986, London
By: Citibank, N.A. (CSSI Dept.), Agent Bank CITIBANK

NOTICE OF PREPAYMENT

The Bank of Tokyo, Ltd.

(Incorporated with limited liability in Japan)

U.S. $30,000,000 Callable Negotiable Floating Rate Dollar Certificates of Deposit due 21st January, 1988 (Series RE)

In accordance with the provisions of the Certificates, notice is hereby given that The Bank of Tokyo, Ltd. ("The Bank") will prepay the principal amount on the next Interest Payment *Date, 21st January, 1987, together with the interest accrued to* that date.

Payment will be made against presentation and surrender of the Certificates at the Bank's London Office at 20/24 Moorgate, London EC2R 6DH.

28th November, 1986.

NOTICE OF PREPAYMENT

The Bank of Tokyo, Ltd.

(Incorporated with limited liability in Japan)

U.S. $10,000,000 Callable Negotiable Floating Rate Dollar Certificates of Deposit due 8th January, 1988 (Series RC)

In accordance with the provisions of the Certificates, notice is hereby given that The Bank of Tokyo, Ltd. ("The Bank") will prepay the principal amount on the next Interest Payment Date, 8th January, 1987, together with the interest accrued to that date.

Payment will be made against presentation and surrender of the Certificates at the Bank's London Office at 20/24 Moorgate, London EC2R 6DH.

28th November, 1986.

CITICORP

U.S. $500,000,000

Subordinated Floating Rate Notes Due October 25, 2005

Notice is hereby given that the Rate of Interest has been fixed at 6.225% and that the interest payable on the relevant Interest Payment Date December 31, 1986 against Coupon No. 14 in respect of *US$10,000 nominal of the Notes will be US$57.06.*

November 28, 1986, London
By: Citibank, N.A. (CSSI Dept.), Agent Bank CITIBANK

CITICORP

U.S. $350,000,000

Subordinated Floating Rate Notes Due November 27, 2035

Notice is hereby given that the Rate of Interest has been fixed at 6.225% in respect of the Original Notes and 6.3125% in respect of the Enhancement Notes, and that the interest payable on the relevant Interest Payment Date December 31, 1986 against Coupon No. 13 in respect of US$10,000 nominal of the Notes will be US$57.06 in respect *of the Original Notes and US$57.86 in respect of the Enhancement Notes.*

November 28, 1986, London
By: Citibank, N.A. (CSSI Dept.), Agent Bank CITIBANK

BANCO NACIONAL DE COMERCIO EXTERIOR, S.A.
MEXICO, D.F.

US$50,000,000 FLOATING RATE NOTES DUE 1988

The interest rate for the six-month period from 21 November 1986 to 20 May 1987 (181 days) has been fixed at 6⅜% p.a.

The amount of interest per bond of US$5,000 denomination is US$160.26 payable on 21 May 1987.

This announcement appears as a matter of record only

CIPAF

COMPAGNIE INTERNATIONALE DE PARTICIPATIONS BANCAIRES ET FINANCIERES
«C.I.P.A.F. S.A.»
SOCIETE ANONYME HOLDING
LUXEMBOURG

Private Placement of $US 5.000.000.-

5% United States Dollar Bearer Bonds 1986/1992 with Warrant attached to suscribe to 250.000 Bearer Shares of Flux 1.000.- nominal value

Placing arranged by

BANQUE CONTINENTALE DU LUXEMBOURG S.A.

NOTICE TO LOMBARD DEPOSITORS

	Rates for depositors entitled to receive gross interest	Rates for depositors entitled to receive net interest	Gross equivalent to a basic rate tax payer
14 Days Notice — Minimum deposit is £2,500	10⅜% pa	7·75% pa	10·91% pa
Cheque Savings Accounts — When the balance is £2,500 and over	9½% pa	7·10% pa	10·00% pa
When the balance is £250 to £2,500	7% pa	5·23% pa	7·36% pa

Interest is credited on each published rate change, but not less than half yearly.

Lombard North Central
17 Bruton St, London W1A 3DH.

TOKYU DEPARTMENT STORE CO. LTD.

Notice to EDR Holders

The Chase Manhattan Bank, N.A. announce that the interim cash dividend of Yen 3.75 per share has been converted to U.S. Dollars and amounts to US$23.28 gross per EDR. All presentations will be subject to deduction of Japanese withholding tax (if any) at the appropriate rates and representative payments will be US$18.62 net after deductions of 20% Japanese withholding tax or US$19.79 net after deductions of 15% Japanese withholding tax depending upon the residential status of the claimant and the application of any Double Tax Treaty concluded with Japan. Affidavits will be required in all cases where a withholding rate of less than 20% is to be used. Accordingly, EDR holders may present coupon No. 15 forthwith at The Chase Manhattan Bank, N.A., Woolgate House, Coleman Street, London EC2P 2HD or at Chase Manhattan Bank Luxembourg S.A., 47 Boulevard Royal, Luxembourg or at Morgan Guaranty Trust Company of New York, Avenue des Arts 35, 1040 Brussels or at Kredietbank S.A. Luxembourgeoise, 43 Boulevard Royal, Luxembourg.

THE CHASE MANHATTAN BANK, N.A. London, as Depositary.

EIICHI YAMADA, 78, claims he is too old to retire from the board of Citizen Watch. As a former chairman of the Japanese watch, office equipment and precision machinery group, his experience is also too valuable for him to be allowed to go at this critical time in his company's and his country's history.

"Japanese industry is having to restructure and is searching fervently for new areas and new products. We are conducting a 180-degree turnabout in government and business policies which have ruled for 30 years," he says. "It takes time, but we must. Right now we have no easy measures."

Ten years and more have passed since Citizen saw that the world watch market was approaching saturation and that future growth depended on the development of other interests.

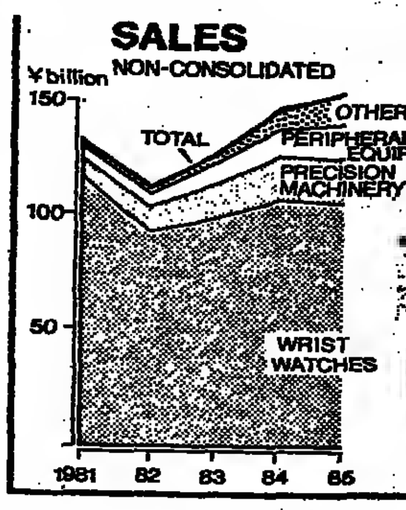
At the time it was planning to develop new products extrapoleted from its expertise in watches, it could not heve known that its efforts would be so haunted by recession, the rise of the yen and the spectre of protectionism in the west. Its main diversifications include computer printers, disk drives, mechine tools, automatic assembly equipment and miniature television sets. Nor could it have forecast the speed at which the affects of saturation in the watch market and its competitors' consequent efforts to hold market share would threaten to swamp its crucial profit centre.

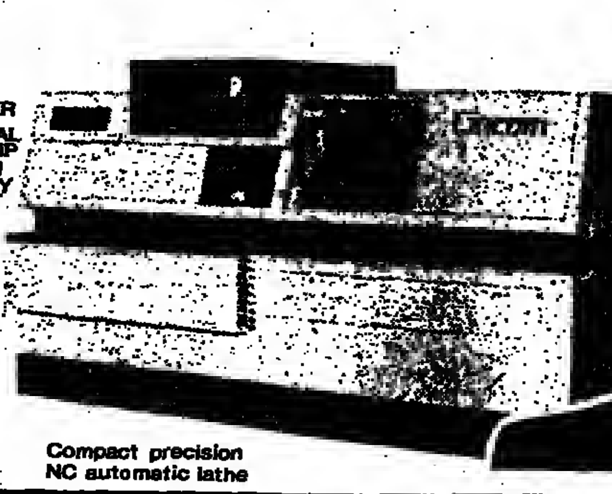
Harrassed by Hong Kong, other cheap suppliers and Switzerland's Swatch revivalists, Japanese manufacturers, led by Seiko and Citizen, have seen the average price of their products fall by 4 per cent a year since 1982. Half of the 440m watches sold on the world market last year cost less than Y3,000 ($20).

As e result, Citizen has had to expend almost as mnch management effort on keeping its cash cow alive and yielding milk as it has on its programme to crank up the proportion of group sales from interests other than watches. It is aiming for a split of 50 per cent watches, 50 per cent "others" by the end of the 1988 financial year. At present the ratio is 68:32, changed from 78:22 in 1984.

The company has adopted two main tactics: it has shifted large volumes of watch production overseas and simultaneously boosted output.

Five years ago a quarter of Citizen's watches were made overseas by cheaper labour in Hong Kong and South Korea with parts supplied mainly from Japan. At present the figure is 35 per cent and Michio Nakajima, vice president and chief financial officer, says the production could climb to 50 per cent by the end of the current year in March 1987.





Compact precision NC automatic lathe

Michio Nakajima

Citizen responds to pressure

Christopher Parkes reports on the Japanese watch group's diversification strategy

In 1985 group ontput increased 28 per cent to almost 71m watches, yet the value of salee fell from Y106.3bn to Y105.6bn. Prodnction is heeding upwards again this year to 83m wetches and sales by value ere once again expected to fall, by 3.5 per cent, to Y102bn.

Divisional profits are not disclosed, but in 1985 profits for the company as e whole fell 23 per cent to Y10bn. The eppreciation of the yen was responsible for some of the setback, hut the figure also underlines the need for, and perhaps indicates the extent of, the promotional and development investment in Citizen's newer ventures in what the management likes to call "mechatronics."

This corporate buzz-word was designed to convey Citizen's progression from small-scale precision engineering in mechanical watches, through the introduction of electronic quartz watches and on into new areas.

It has made machine tools for its own use for 45 years, with a modest market in sales to outsiders. Now it has a new, full-scale factory near Tokyo, supplying the world.

Introduced to electronics by the arrival of the quartz watch in the 1970s, it has since expanded this interest into liquid crystal display screens and pocketable, flat-screen television

Its expertise in handling tiny, precision-made parts has also been turned to new uses in the manufacture of computer printers and compact floppy disk drives. In-honse automatic assembly equipment developed for watches in the 1960s, has been edapted and developed for use in its new production lines and sold to outside companies making printed circuit boards and the like.

The new interests ware consolidated relatively recently. Once it waa sure of the diversification psth it wanted to follow, the company was divided into four clear divisions: watches, machine tools, office equipment and special products. Top level management was restructured threa years ago. Before that the main hoard's principal contact with the company et large was through the watch division. Now, however, watches is just one of four sectors which comes under top-level scrutiny once a month through a divisional steering committee.

The precision machinery division, dominated by tha numerically controlled Cincom lathe, which accounts for about two-thirds of division sales of Y20bn, seems to be hampered by the relatively small scale of the world market for Citizen's specialised equipment, and the machine tools sector's sensitivity to recession.

Japanese buyers, led by office machinery, communications equipment and automobile component makers, are expected to buy 30 per cent fewer Cincom lathes this year.

Exports—mainly to the US which accounts for more than 70 per cent of overseas shipments—are forecast to fall 10 per cent.

The trends have been noted and action taken. Whila sales to the US have grown respectably, exports to Europe have been flat for six years. A marketing company was set up in Stuttgart earlier this year and given clear targets for growth. From 52 units in 1985, the operation ie expected to increase salas to 120 machines in 1988, mostly in West Germany and the UK.

Senior management takes a pragmatic view of the future. Within its programme to rednce dependence on watches to 50 per cent, precision machinery and most of the other new interests are expected to account for only 20 per cent of the balance.

The remaining 30 per cent of group sales will come from office equipment: mainly computer printers and floppy disk drives, which currently account for only 14 per cent of turnover. Keen pricing plays an especially important role here since this is the sector where tha competition is toughest and most solidly entrenched.

The company pnt down an important marker this month in tha US, when it launched its first laser printer. It will sell for around $2,000, compared with the current norm of $3,000-$4,000 for equipment of similar capacity and quality. It is also planning to build a manufacturing plant for computer printers in Britain.

Citizen made its first printer in 1971, selling components and completed mini-printer units for electronic calculators to be sold under other companies' brands. It entered the computer peripherals market on the same basis five years later and developed a full range of products. It began marketing under the Citizen brand only in 1983 after identifying the personal computer (PC) sector as the prime growth aree for its printers.

Three years ago divisional sales were worth $47m, and more or less equally divided between calculator and industrial printers. This year Citizen expects to sell $132m worth of machines of which more than half will be PC printers. It appears confident thst these trends will continne. Considering the sensitivity of machine tools, the future growth of the company conld pivot on this office equipment.

A new subsidiary, Pritech, has been set up to make printed circuit boards (with Citizen machines) for printers. Marketing offices specifically for office machines have been opeoed recently in the US and Europe, and the compeny is looking closely at fully automating printer manufacture, again using its own watch-based assembly machines.

It still has some way to go before taking this step. By its own reckoning the company calculates that automated assembly becomes economic when output doubles to 100,000 printers a month. As present its most popular models are running off the lines at about 50,000 monthly.

Despite this, the business has still to produce profits. "We believe the printer business is still in the investment stage," says Nakajima. "PC printer sales are about Y25bn. We cannot get a satisfactory profit from this. But we expect to get proper returns in about three years' time."

By then the company aims to have won e 10 per cent share of the global printer market and established itself as third or fourth largest manufacturer in the world.

Nakajima appears quite undaunted by the presence of eome 120 other printer makers in the market, led by Brother and Epson. He says there is enough growth in the business for Citizen to expand without its heving to erode other manufacturers' market share. He remembers the company's "blooding" in 1983. Citizen came in just as trade was suffering an unprecedented depression and etill managed to carve itself a respectable foothold. Last year sales of office equipment increased 21.5 per cent to Y15.8bn. This year is expected to show a rise of 26.8 per cent to Y23bn.

Citizen attributes its success to the quality of its marketing team — shanghaied from the competition — and the quality of its products. The only incentive it claims to offer is an unusual two-year guarantee.

Buying market share is a common enough practice in all industries, although Nakajima is careful to stress that despite the lack of profits, aelling prices do cover marketing and production costs. It is partly to fend off any future accusations of dumping that Citizen is planning to build a UK factory.

As well as its costly marketing drive, the company aims to spend Y8.5bn on research and development, the equivalant of 5.2 per cent of sales this year. In the 12 months to March 1986, canital expenditure was a record Y13.7bn — almost 9 per cent of turnover — and is forecast to top Y12bn again in the current year.

Citizen feels it has no alternative but to press on with investment on this scale. Yamada suggests Japanese industry at large must follow a similar path to counter the effects of the rising yen and protectionism. At Citizen these problems are compounded hy the rapid ageing of its basic market. As he says, there are no easy answers, but much more cash must be squeezed from watches before the company's new interests will be able to stand alone. He looks pained: "If the yen appreciates, all we can do with watches is to reduce prices and try to gain an even bigger share of the market."

Training

Putting across a 'verbal handshake'

Michael Skapinker reports on a video which teaches good telephone behaviour

DENZIL WANDERLUST is a conscientious tour operator. So when a travel agent asks whether two clients can go on his Himalayan trip, joining the party in Katmandu but missing the sightseeing in Bhutan, Wanderlust makes a detailed note of their requirements. This reduces the travel agent to a state of apoplectic rage.

The cause of the travel agent's anger is that she is talking to Wanderlust on the telephone and not face-to-face. Wanderlust happens to be taking notes of what she tells him, but for all she knows he might be reading the newspaper or drinking a cup of coffee. "It feels as if I'm talking to thin air here," she complains.

When help arrives it bears the familiar face of actor John Cleese. He tells Wanderlust (who in real life is fellow actor Art Malik) that he could have avoided the travel agent's anger with a few well-placed "I sees," "I've got yous" and "no problems." Noises which show that he is listening.

This is Cleese's 50th performance for Video Arts, the training film company of which he is a director. Previous films dealt with how to conduct interviews, run meetings, deal with difficult customers and read a balance sheet. This one is about how to talk on the telephone.

"The telephone is an instrument of tremendous power and tremendous perils," he tells us. Today we do more and more of our business on the phone. It is quicker and it cuts down on travelling expenses. But those perils are everywhere.

When a potential customer visits a company's offices, he can take in the impressive sign outside the door, the plush furnishings and the hi-tech switchboard. If the receptionist is a bit off-hand he is unlikely to be more than mildly irritated. But if that same potential customer phones the company the result will probably be different. The off-hand receptionist, or sales manager or executive director, who answers the phone is at that moment the company's only representative. The caller has no other impression to rely on.

So, too, visitors to an office can see immediately whether or not the person they want to speak to is busy. There is no way of seeing that on the phone. When the phone rings in the Cleese video, Mr Shiftlock, a computer service manager, is in a group meeting. His caller does not know that and cannot understand why Shiftlock insists on speaking so softly.

Shiftlock begins to explain to the caller why his computer refuses to print, but then realises he is disrupting the meeting and announces abruptly that he has to get off the phone.

What should he have done? Explained his situation, says Cleese, established how long the enquiry would take and

VIDEO ARTS

arranged a convenient time to phone back. Like much else in the film it seems obvious. Except that if any of us tried to remember the last unsatisfactory telephone conversation we had with a public sector or company functionary we probably would not have to cast our minds back more than a week.

An essential and elementary part of what Cleese calls PTB—professional telephone behaviour—is the "verbal handshake": introduce yourself and find out who the caller is and what he or she wants. In the film, Mr Privet of Parks and Cemeteries at Brimpton Town Hall takes a call from a Mr Graveney who tells him he has some money. "If it's money, you want the Treasurer's department," he tells Graveney and transfers him back to the switchboard before Graveney gets a chance to tell him he wants to donate a park bench to the town in memory of his wife.

Telephone Behaviour — The Power and the Perils. Video Arts, Dumbarton House, 68 Oxford Street, London W1N 9LA.

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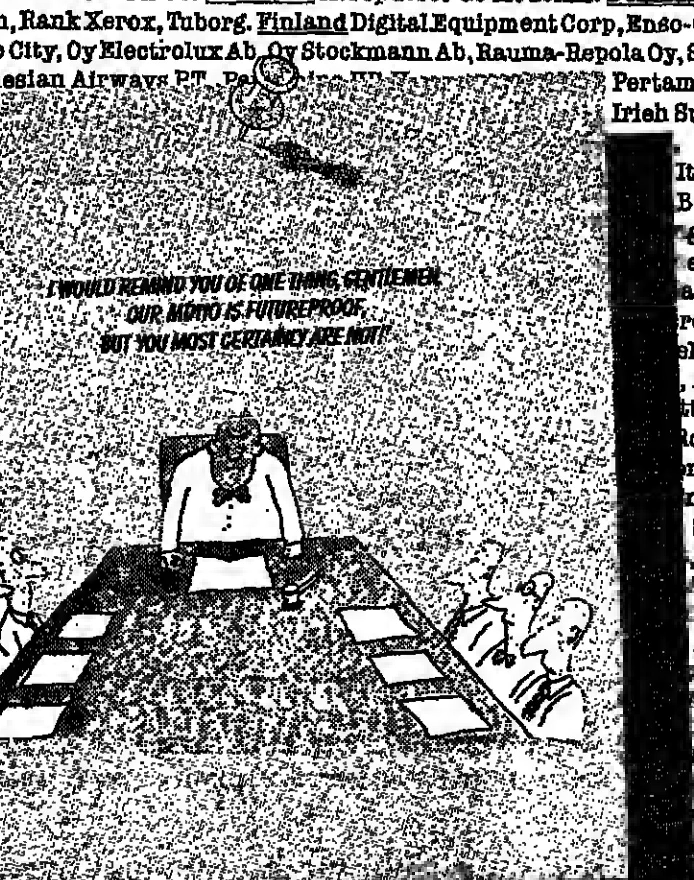

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Company Notices

RAND MINES LIMITED

(Incorporated in the Republic of South Africa)

Registration No. 01/00656/06

RM

RAND MINES

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the ninetyfirst annual general meeting of Rand Mines Limited will be held in the Auditorium, lower ground floor, The Corner House, 63 Fox Street, Johannesburg, on Friday 23 January 1987 at 11h00 for the following business:

[illegible]

By order of the Board
RAND MINES SERVICES LIMITED
per A. E. HOLT

19 November 1986

[illegible]

LEUMI INTERNATIONAL INVESTMENTS N.V.

US$60m Guaranteed Floating Rate Notes 1988 Extendible at the Holder's Option to 1992 (2nd issue)

The interest rate applicable to the above Notes in respect of the six month period commencing Friday 28th November 1986 has been fixed at 6¼% per annum. The interest amounting to US$31.60 per US$1,000 principal amount of the Notes will be paid on Friday, 29th May 1987 against presentation of Coupon No. 5.

Principal Paying Agent
BANK LEUMI TRUST COMPANY OF NEW YORK

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November 28, 1986

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In accordance with the provisions of the Notes, notice is hereby given that for the Interest Period from 28th November, 1986 to 29th May, 1987 the Notes will carry a Rate of Interest of 6⅜% per annum and that the interest payable on the relevant Interest Payment Date, 29th May, 1987 against Coupon No. ... will be US$319.13 per US$10,000 Note.

Agent Bank:
Morgan Guaranty Trust Company of New York
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Banco di Roma

U.S.$150,000,000

Floating Rate Depositary Receipts due 1992

Notice is hereby given that the Rate of Interest relating to the above issue has been fixed at 6⅛ per cent for the period 28th November, 1986 to 29th May, 1987. Interest payable on 29th May, 1987 will amount to US$306.50 per US$10,000 Deposit and US$7,662.33 per US$250,000 Deposit.

Agent Bank:
Morgan Guaranty Trust Company of New York
London

N.Z.I. FINANCIAL COMPANY LIMITED

U.S.$125,000,000

Floating Rate Notes due 2016

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TECHNOLOGY

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Scanners start to make a mark on US business efficiency

As prices tumble, office applications expand, reports Louise Kehoe, in San Francisco

"IF WE GOT a 100-page contract that we needed to modify, we used to re-key the whole thing . . . and pay the typists overtime. Now we just feed it into the scanner and make the necessary changes."

This comment by Pat Martin, data processing manager for a San Francisco law firm in the US, highlights one of the many ways that "personal scanners" are changing the way that personal computers can be used for day-to-day office tasks.

Personal scanners "reed" text or graphics directly from a piece of paper and feed the information directly into e personal computer. For many personal computer epplications this represents a major improvement. As the cost of scanners is coming down so new uses for PCs will be created. Thus it was for the lew firm, for which the question now is "how many of these scanners should we have?" comments Martin.

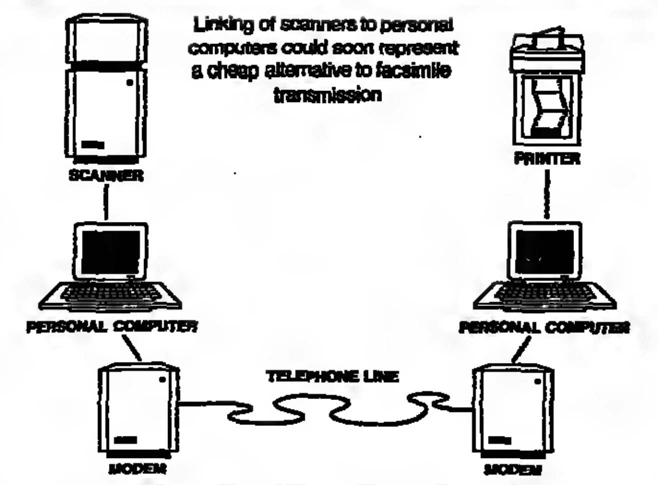
Uses already envisaged range from replacing some of the functions of word processors, through to desk top publishing where scanners resolve many of the problems of merging original artwork and photographs with computer generated text and graphics.

With word processing — the most widespread use of personal computers — many tasks involve merging information from several sources. If the text is not already in the computer system, however, the user is normally obliged to retype it in its entirety. A scanner can greatly speed up the process by enabling the user to feed a page of text into a personal computer in 30 seconds instead of the several minutes it would take to retype the page. Scanners, with a typical error rate of less than 0.1 per cent, make fewer mistakes than typists, the manufacturers claim.

Scanners can also solve the problems people run into when they upgrade office automation equipment. "We had old word processors that were obsolete," explains Ron Bullock, who is in charge of computer systems for the City of Seattle's parks and recreation department. "When we bought IBM PCs we couldn't find anyone who could convert our old files to the IBM PC format." Instead be purchased a $4,000 scanner and can now print out documents from the old system and scan them into the new PCs.

Personal scanners "read" documents in two separate ways. Pictures, graphs, drawings and the like are digitised so that they can be fed into the computer. This is achieved by checking for black or white, or in some cases shades of grey, at thousands of points on the image. In a personal scanner the resolution of black and white "dots" is typically 200 or 300 dots per inch which produces a slightly "grainy" effect.

SCANNER - FACSIMILE



To read text, the scanner matches the shapes of letters on the paper with those stored in its computer memory.

Personal scanners borrow much of their technology from office automation document readers and graphic arts scanners, machines costing anything from $6,000 to $30,000 depending upon their features. Traditional scanner models are designed for fast, automatic throughput of forms, cheques and other documents that are handled in bulk. Graphics scanners are used primarily by publishers and printers. The personal scanner lacks the speed and high resolution of professional quality machines, but is far cheaper and very simple to use.

With the technology in place, "the challenge for manufacturers is to create demand," says Iris Polaski who studies the scanner market for Dataquest, a US market research firm. At around $3,000 personal scanners cost as mnch as if not more than the personal computers they must be linked to, she notes.

Desk top publishing applications will create a mass market for personal scanners over the next few years–Dataquest

At current prices, the purchase of e personal scanner can he justified by anyone who types more than seven pages of text per day into a personal computer, claims Richard Amen, president of Dest Corporation, a leeding US scanner manufacturer.

Legal offices rank high among early users of scanners, he says. Before Pat Martin's San Francisco law firm decided to bny a scanner it had been looking at optical character readers for five or six years, he says. "But we could not justify the $30,000 cost." Once prices came down, Martin was quick to see the potential advantages. Although he would like to see an autometic paper feed feature ou the scanner, he notes that the scanning quality of his personal scanner is higher than that of many systems that cost ten times the price.

In desk top publishing, one of the fastest growing personal computer applications, the personal scanner is a real boon since it overcomes the problem that arises when you need to insert a pre-drawn advertisement in a newsletter, or a photograph in a brochure. A scanner means publishers are no longer forced to resort to scissors and paste.

Desk top publishing epplications will create a mass market for personal scanners over the next few years, according to Dataquest, the US market research firm. Analyst Iris Polaski projects that sales of personal scanners for desk top publishing will grow from a current level or around $7m to over $200m by 1990, a 74 per cent annual growth rate.

One of the most promising future applications of personal scanners is as a replacement for facsimile machines. The combination of scanner, personal computer, telephone and modem (the box that links the computer to the phone line) produces a system that can be used electronically to transmit documents over the phoue.

Workers linked by local-area networks or electronic mail systems can also use scanners to enter information quickly into the network.

Analysts anticipate that in the longer term "image processors" will emerge — desk top computers that merge the functions of facsimile, copier, computer and text reader. More immediately, however, they look for a combination of scanner and printer technologies to produce e desk top unit that will both scan and print out paper documents. Prototypes of Japanese built units have already been shown in the US.

Japanese companies can be expected to play a major role in the emerging personal scanner market, but it is too early to predict who the market leaders will be, says Ms Polaski. Current players include US companies whose roots are in optical character recognition, such as Dest and Compusan, along with image digitiser veterans such as Datacopy.

WORTH WATCHING

Edited by Geoffrey Charlish

Police get a new informer

HERTFORDSHIRE'S police force, in the UK, is using laser optical disc technology at its Welwyn Garden City headquarters to store, retrieve and display full colour digitised photographs of convicted criminals or arrested persons. It is believed to be the first police force to do so.

The system uses Japanese Hitachi OD301 12in optical disc drives. Each disc holds up to 50,000 colour photographs, together with criminal records, in the form of tiny laser-inscribed digital marks.

Called Prod (photographic retrieval from optical disc), the system was developed by UK Home Office scientists in conjunction with Piedar, a Watford-based company which built the Hertfordshire system.

In under seven seconds, Prod's computer can search the records for offenders by age, type of offence or physical description. Ultimately, the pictures will be available to all police stations throughout the county.

Ingersoll warns on MAP euphoria

JUST BEFORE the UK Department of Trade and Industry's Cimap automation event in Birmingham, Ingersoll Engineers, the manufacturing business consultancy has put out a statement which opens: "Don't be bamboozled by the hype about MAP. It won't improve your business performance to any significant degree."

MAP, or manufacturing automation protocol, is a General Motors-led initiative aimed at encouraging automation equipment makers to use common factory communications standards. It has strong world-wide support.

But Ingersoll Engineers, whilc applanding the DTI effort in Birmingham, cautions that "sophisticated communications systems like MAP are more important for large companies than small ones." Small companies, the statement asserts, have limited resources to put into the planning of a MAP network. It continues: "They gain no benefit from implementing a MAP pilot cell. Piecemeal tinkering with clever communications systems is a recipe for increased costs and marginal gains."

How Kodak reels off company files

IN A joint venture with Prime Computers, and using a Prime model 2655 office system, Kodak of the US has launched a powerful computer-assisted microfilm retrieval (CAR) system.

CAR systems combine the computer's strengths in managing an index with the advantages of microfilm, namely, low-cost, high-density storage of original images.

The new system, KAR-8800, costs £130,000 and is aimed at business and government organisations which have large daily retrieval needs. Up to 64 electronic visual display units can be supported. At any of these a user can rapidly access the index and find the required document. The terminal then instructs a microfilm reader to search the reels of film, project a frame on the screen, or print it out.

Smart moves by medical schemes

EUROPEAN MEDICAL Systems (EMS) of Geneva has developed a product which uses Philips smart cards to hold medical and other data to be carried by members of state or private health schemes.

Smart cards carry a microprocessor and memory within the card's thickness, allowing access to the data in specific ways by defined individuals.

EMS card data includes name and address, type of insurance coverage (where applicable), emergency medical data (allergies, vaccinations, etc), individual history, diagnoses, results of medical examinations and similar information. All this can be called up and read on screens and keyboard units in hospitals and ambulances.

The system, called Medicard, has been on trial this year with France's Union des Societes de Secours Minieres du Nord (1,000 cards). In the US trials were conducted by Blue Cross California under the name PHCard (2,000 cards) and by American Medical Centres (1,000 cards). EMS is known to be talking to both the National Health Service and private medical groups in the UK.

CONTACTS: Ingersoll Engineers: UK, 0926 27066. Hitachi: UK, 01-743 2001. Piedar: UK, 0923 48619. European Medical Systems: Geneva, Switzerland, 22 206336. Kodak, UK, 0442 61122.

Milling becomes central to Austin Rover designs

BY JOHN GRIFFITHS

AUSTIN Rover, the UK car manufacturer, has taken another step down the road to a full computer integrated engineering system with the installation of a £2m, five-axis machine for the milling of model prototypes.

This is driven directly off Austin Rover's central design database at the company's Canley headquarters, near Birmingham.

The equipment, manufactured by French company Forest Line, can machine e full-sized car mock-up in about one-quarter of the time required by conventional, three-axis milling machines.

A variety of materials include aluminium, wood, resins and foams, can be machined.

Austin Rover says the equipment can produce an "outstanding" ready-to-view surface by means of its flat-bottomed cutters. It can be used for both styling and engineering work.

"The machine's eccuracy and its ability to respond rapidly to any areas of change makes for significant time-savings in the manufacture of prototype components," says the company.

Thus it has the potential to make redundant the traditional two-stage procedure of e clay styling model followed by a more permanent wooden version.

Austin Rover claims the machine is the first of its type to be installed in the UK motor industry.

It fits in with a manufacturing policy now some years old at Austin Rover, in which a "core" computerised design database is established for a particular model. From this even outside component suppliers are increasingly obliged to work.

French-supplied milling machine at work shaping a prototype of Austin Rover's MG EX-E.

THE MacROBERT AWARD

Britain's premier award for engineering achievement

The 1986 MacRobert Award medals were yesterday, Thursday, November 27, presented by HRH The Duke of Edinburgh at Buckingham Palace to the Chairman and the nominated Project Leaders of

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the availability of which systems have made an outstanding contribution to the latest advances in medical diagnosis, chemical and biochemical analysis procedures throughout the world.

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AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

INSURANCES

The Permanent Trustee Company Limited
as Trustee of Queensland Coal Trust

US $45,000,000.00
Floating Rate Notes maturing 1998.

Holders of Floating Rate Notes of the above issue are hereby notified that for the next Interest period from November 28, 1986 to May 28, 1987 the following information is relevant:

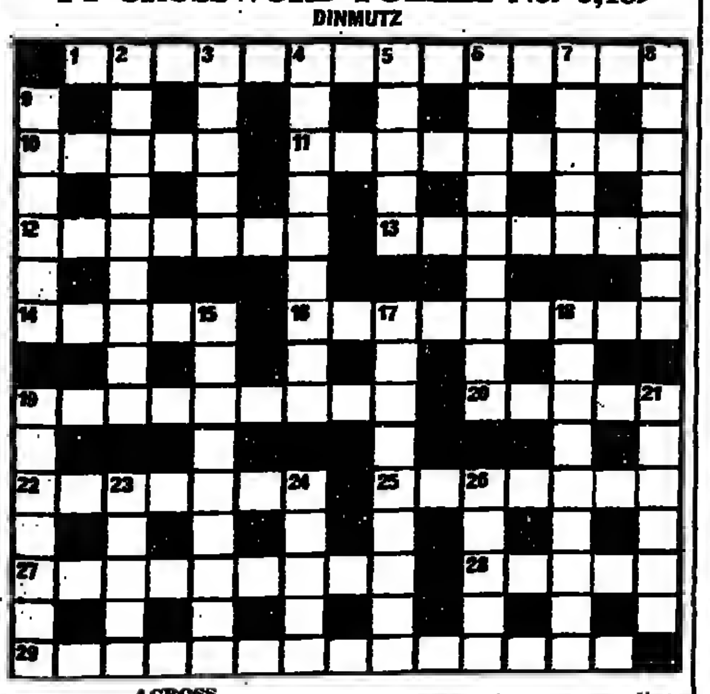
1. Applicable Interest Rate: 6.1625% per annum
2. Interest payable on next Interest Payment Date: US $3,098.37 per US $100,000.00 nominal
3. Next Interest Payment Date: May 28, 1987

November 26, 1987

BA Asia Limited
Reference Agent

FT CROSSWORD PUZZLE No. 6,189

DINMUTZ



ACROSS

1 Enthusiastic about the agreement, moreover (4, 3, 7)
10 Dish of tripe cooked (5)
11 One who could play with toy guns? (9)
12 Ship's doctor, one who moves inch by inch (7)
13 Plans for openings on deck (7)
14 Rock in layers—tear off a strip (5)
16 She could come from Rio, Athens or Lisbon (9)
19 Noel upset about Liberal (9)
20 Cactus without a friend in the world? (5)
22 Condition of red rash—or a blue, possibly (7)
25 Formic cure for indigestion (7)
27 Playing about, fiddling (7)
28 Artless one in body of church (5)
29 Hey! nation taking steps? (7-7).

DOWN

2 At modern reconstruction, opening of Ely cethedral (5, 4)
3 Go back and take in victory that is overdue (5)
4 29? Very fast time, said the illusionist (3-6)
5 Reynard's tale we are told (5)
6 Conservatives depressed, thoroughly (5-4)
7 A yearning to hear Mahler's third (5)
8 Assistant to an appealing Italian barmaid (7)
9 Suit for diggers (6)
15 Confused text about traveller interested in outside world (9)
17 Lost again, perhaps, in yearning (9)
18 Pressing together in devil-deed (9)
19 Like the air in Penzance? (7)
21 Device for promoting men on the board (6)
23 Tongue diet put before university head (5)
24 Friendship—little woman admits it (5)
26 Doctor's note? (5)

Solution to Puzzle No. 6,188

AUTHORISED UNIT TRUST & INSURANCES

American Life Insurance Co UK
2-8 Altyre Road, Croydon CR9 2LG 01-680 7181

Alpha Range—Life				
Managed Acc	93.9	98.4	-0.1	—
American Acc	99.9	105.1	-0.7	—
Deposit Acc	99.3	104.6	.....	—
European Acc	110.4	116.2	+0.4	—
Far Eastern Acc	109.2	115.0	-0.1	—
Fixed Interest Acc	81.4	85.6	-0.0	—
International Acc	107.6	113.3	-0.2	—
Property Acc	116.3	122.4	+0.2	—
UK Equity Acc	92.0	96.8	+0.1	—
Alpha Range—Pensions				
Managed Acc	96.3	101.3	-0.1	—
Premier Range				
Managed Acc—Life	102.5	107.9	.....	—
Managed Acc—Pensions	103.7	109.1	-0.1	—

Other unit prices available from American Life

Baltic Assurance Funds
20, Chiswell St, London, EC1Y 4TY 01-374 6801

Managed Growth	249.98	263.13	-0.26	—
Managed Income	119.56	125.85	.....	—

Barclays Life Assur. Co Ltd
252 Romford Road, London E7 01-534 5544

Barclaybond	363.5	[illegible]	[illegible]	—
Managed Accum	299.8	[illegible]	[illegible]	—
Equity Accum	435.3	[illegible]	[illegible]	—
Property Accum	206.6	[illegible]	[illegible]	—
International Accum	272.4	[illegible]	[illegible]	—
Gilt-edged Accum	194.7	[illegible]	[illegible]	—
Money Accum	176.0	[illegible]	[illegible]	—
American Accum	181.3	[illegible]	[illegible]	—
Australia Accum	158.7	167.[illegible]	[illegible]	—
Financial Accum	203.2	213.[illegible]	[illegible]	—
"500" Accum	218.8	[illegible]	+0.[illegible]	—
European Growth Accum	146.3	[illegible]	[illegible]	—
Income Accum	242.9	[illegible]	[illegible]	—
Japan & Gen Accum	308.2	[illegible]	[illegible]	—
Leisure Accum	149.7	[illegible]	[illegible]	—
Spec Sits Fd Accum	121.9	[illegible]	+0.[illegible]	—
Universal Tec Accum	109.6	[illegible]	[illegible]	—
Managed Pus Accum	999.7	[illegible]	[illegible]	—

Cornhill Insurance PLC
57 Ladymead, Guildford 0483 68161

Equity Fd(A&B) Nov 26	253.0		266.5	+2.5	—
Fixed Int(A&B) Nov 26	162.0		171.0	+1.0	—
Man Gth(A&B) Nov 26	526.5		554.5	+8.5	—
Money Fd (A&B) Nov 26	142.5		150.0	.....	—
Cap Fd(A&B) Nov 15		400.0		.....	—
G.S.S. SpecFd(A&B) Nov 15		166.0		.....	—
FarEastEqty(A&B) Nov 26	181.0		191.0	+3.5	—
N.Amer Eqty(A&B) Nov 26	106.5		112.5	-0.5	—
IntTechnlgy(A&B) Nov 26	155.0		163.5	-1.5	—
Property (A&B) Nov 26	195.5		206.0	.....	—

Credit & Commerce Life Ass. Ltd
74 Shepherds Bush Green, W12 8SQ 01-740 7070

Life Funds				
UK Equity	142.7	150.5	+2.0	—
American Equity	122.5	129.2	+3.9	—
Far East Equity	162.3	171.2	+5.9	—
Managed Fund Acc	369.0	389.0	+4.0	—
International Equity	189.3	199.7	+1.4	—
Gilt Edged	179.5	189.3	+2.1	—
Money Fund	144.4	152.3	.....	—
CCL Henderson	160.1	168.9	+1.1	—
CCL Perpetual	201.0	212.0	+0.9	—
CCL Property	226.1	238.5	+1.6	—
Smaller Cos	250.3	264.0	-0.4	—
Perpetual Eurogrowth	118.1	124.5	+4.4	—
CCL Hend'sn Prime Res	97.6	102.9	+0.2	—

Criterion Assurance Group
Swan Court, Petersfield, Hants 0730 63281

Ultimate Mngd Fund	172.4	181.5	.....	—
Criterion Mngd Fund	165.6	174.3	.....	—
Pension Mngd Cap	52.0	54.7	.....	—
Pension Mngd Acc	61.3	64.6	.....	—
Pension G'teed Dep Ac	34.6	36.4	.....	—

For closed Fund unit prices ring 0730 63281

Crown Financial Management Ltd
Crown Hse, Woking GU21 1XW 04862 5033

INSURANCE, OVERSEAS & MONEY FUNDS

OFFSHORE AND OVERSEAS

MANAGEMENT SERVICES

World Fund S.A.
2 Boulevard Royal, Luxembourg

World Fund NAV	$18.79		+0.25	—

World Wide Growth Management
10a, Boulevard Royal, Luxembourg

Worldwide Gth Fd	$16.74		+0.80	—

Inv. Adv.: M. & G. Inv. Mngt., Ltd, London

Yamaichi Dynamic Mngt Co SA
10A Boulevard Royal, Luxembourg

Advanced Tech	$16.48		+0.08	—
Dynamic Grwth Fd	$19.05		−0.36	—

Zero Bond Fund Limited
PO Box 208, St Peter Port, Guernsey 0481 26268

Zero Bond Fund	$12.20	12.89		—

Money Market Trust Funds

	Gross	Net	Gr Equiv CAR	Int Cr
Charities Aid Funds Money Mngmt Co Ltd				
Staple Hall, Stone Ct, Houndsditch, EC3 01-283 6461				
CAFCASH Call Fund	10.32	7.77	11.32	3-mth
CAFCASH 7-day Fund	10.24	7.68	11.25	3-mth
The Charities Deposit Fund				
2 Fore Street, London EC2Y 5AQ 01-588 1815				
Deposit	10.50	£10.92CAR		3-Mth
The Money Market Trust				
63 Qn Victoria St, EC4N 4ST. 01-236 0952				
Call Fund	10.52	7.77	11.49	6-mth
7-day Fund	10.46	7.72	11.43	6-mth
Oppenheimer Money Management Ltd				
66 Cannon St, EC4N 6AE. 01-236 1425				
Call Fund	10.36	7.67	11.01	6-Mth
7-day Fund	10.14	7.50	10.87	6-Mth
Dollar	4.87	3.64	5.21	6-Mth

Money Market Bank Accounts

	Gross	Net	Gr Equiv CAR	Int Cr
Adam & Co. plc				
22 Charlotte Sq, Edinburgh EH2 4DF 031-225 8484				
Full Service Cur Acc	10.25	7.50	10.86	Qtr
Aitken Hume				
30 City Road, EC1Y 2AY. 01-638 6070				
Treasury Acc.	10.25	7.66	11.10	Qtr
Mnt.Int.Chq.£1000-£5000	10.00	7.48	10.90	Mth
Mnt. Int. Chq. £5,000+	10.25	7.66	11.18	Mth
Allied Arab Bank Ltd				
97-101 Cannon St, London, EC4N 5AD 01-283 9111				
High Int. Cheque Acc.	11.00	8.22	12.03	Mth
Bank of Scotland				
38 Threadneedle St, EC2P 2EH. 01-628 8060				
Money Mkt Cheque Acc.	10.25	7.66	11.38	Mth
Barclays Prime Account				
PO Box 125, Northampton 0604 252891				
High Int. Cheque	10.00	7.50	10.86	Qtr

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. # Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ♦ Yield column shows annualised rates of NAV increase. xd ex dividend.

TRADITIONAL OPTIONS

3-month call rates

Industrials	p		
Allied-Lyons	27	NEI	8
Amstrad	15	Nat West Bk	40
BAT	35	P & O Dfd	45
BOC Grp	28	Plessey	16
BSR	11	Polly Peck	36
BTR	26	Racal Elect	18
Babcock	36	RHM	24
Barclays	42	Rank Org Ord	45
Beecham	40	Reed Intnl	25
Blue Circle	55	STC	13
Boots	22	Sears	12
Bowaters	32	TI	40
Brit Aerospace	42	TSB	8
Brit. Telecom	17	Tesco	36
Burton Ord	26	Thorn EMI	42
Cadburys	17	Trust Houses	15
Charter Cons	24	Turner Newall	18
Comm Union	28	Unilever	140
Courtaulds	26	Vickers	36
FNFC	17	Wellcome	17
Gen Accident	75	**Property**	
Gen Electric	15	Brit Land	16
Glaxo	85	Land Secs	30
Grand Met	40	MEPC	32
GUS 'A'	85	Peachey	24
Guardian	75	**Oils**	
GKN	24	Brist. Oil & Min.	$3\frac{1}{2}$
Hanson Tst.	18	Brit Petroleum	58
Hawker Sidd	42	Burmah Oil	32
ICI	75	Charterhall	4
Jaguar	42	Premier	$3\frac{1}{2}$
Ladbroke	32	Shell	65
Legal & Gen	20	Tricentrol	8
Lex Service	32	Ultramar	17
Lloyds Bank	38	**Mines**	
Lucas Inds	46	Cons Gold	62
Marks & Spencer	18	Lonrho	22
Midland Bk	48	Rio T Zinc	62
Morgan Grenfell	26		

A selection of Options traded is given on the London Stock Exchange Report Page.

COMMODITIES and AGRICULTURE

Andrew Gowers on the troubled market facing the two biggest US traders, Cargill and Continental

How the merchants of grain are riding out the storm

"THERE WAS a time when this river looked like a freeway, with so many barges and ships going up and down that you thought it needed a traffic cop in the middle," drawled the grain elevator manager, gesturing towards the wide and muddy Mississippi. "Nowadays you can stand for an hour and not see anything pass. It's discouraging."

The Mississippi is the conduit for an estimated 60 per cent of America's grain and soyabean exports. Dotted up and down its banks just upstream from New Orleans, like a series of giant stationary centipedes, are the grain terminals built in the boom years for US agricultural exports.

Ten years ago, they were busily pumping out the expanding output of American farmers as the US stepped up its self-ordained mission to feed the world. Today, several of them are silent, either all or part of the time—a graphic testimony to the slump which has afflicted the mighty grain trade as well as the farmers themselves.

At the height of US "grain power" in the 1970s, companies like Cargill and Continental Grain made fortunes out of American agricultural exports and became the focus of a glare of publicity—of books, newspaper articles and Congressional hearings. Privately-owned and notoriously secretive, they are the two largest members of a group of five companies which controls, between 85 and 90 per cent of American grain exports, 80 per cent of Argentina's wheat sales and 90 per cent of the cereals exported by the EEC.

But in the last couple of years, their prestige and their profits have suffered a knock. US agricultural exports have declined sharply under the influence of shrinking world farm trade, the partial embargo on grain sales to the Soviet Union, high US support prices and the strong dollar.

With sharp price cuts and other efforts to promote sales this year, US agricultural exports are beginning to show signs of picking up—but only at an enormous cost in terms of subsidies.

More ominous still for the grain companies, some experts suggest that agricultural trade as a whole has embarked on a structural decline.

Both Cargill and Continental, which invested heavily in infrastructure to handle the tide of grain in the years of expansion, admit that, in their home territory at least, they are suffering.

"We're accustomed to agriculture as a cyclical business, but this time, the dip in the cycle is lasting longer than any other time in our 120-year history," said one senior Cargill man. "The grain and oilseeds business has been lousy for three years."

In their quiet, but very different, ways both companies are endeavouring—while cutting costs—to shift the emphases of their businesses. Cargill is moving further into industries downstream and upstream of the grain trade—into processing grain in intensive livestock units and making fertilisers, for example. Continental, by contrast, which has had a distinctly mixed experience with diversification, appears to be pulling back and focusing on grain.

The impact of the slump is clear at all levels. For months at a time Continental has shut a number of its terminals—particularly in the north of the country—and has tried to push maximum volumes out through the ones still working.

Some elevators designed for swift and efficient handling of huge volumes of exports have been converted to the moribund and only marginally remunerative pursuit of storing government-owned stocks of grain.

An official at Continental's penthouse headquarters in New York estimated earlier this year that the company's US operations were probably running at 50 per cent of capacity.

Over at Cargill, based in an imitation French chateau surrounded by a leafy park outside Minneapolis, it is something of the same story.

Mr Walter ("Barney") Saunders, the company's vice-chairman, estimates that the industry as a whole may have been running at one third or less of its total export elevating capacity in the last year. "You can imagine what's happened to the margins." Grain trading world-wide remains a profitable business for Cargill, he claims, but acknowledges: "In the US we've suffered."

This is not a problem which pertains simply to grain elevators. Just as many US farmers over-geared themselves to expand in the late 1970s, so the grain traders have massively over-invested in barges and rail cars to carry produce to the ports.

Barge rates have now collapsed, and competition is fierce on the railroads. Barge owners are now barely able to obtain 40 per cent of the rates they were charging at their peak; in some cases, these may be only 25 per cent of what they were.

Detailed figures for the impact of such developments on the companies' profitability are of course, impossible for an outsider to come by—although it is a safe bet that they are both more than strong enough to weather the storm.

Continental, owned entirely by the reclusive multi-millionaire Mr Michel Fribourg, has never published financial figures in its 65-year history; Cargill, by contrast, a 120-year-old family company, has become a little more forthcoming over the past year or so, with the publication of a couple of Eurobond prospectuses. These showed net income for fiscal 1985 at $257.7m, but executives say the figure would have been considerably lower had it not been for a one-off tax gain during the year; net earnings for the six months ended November 1985 were down to $105m.

Company officials bridle at any suggestion that this trouble has brought a diminution in their power and prestige. They point out that neither Cargill nor Continental is by any means exclusively tied to using US supplies; indeed, Cargill operates a trading subsidiary in Switzerland, Tradax, which is responsible for buying and selling grain from all over the globe.

Nevertheless, the perturbing fact is that demand is down the world over. And the traders have been forcibly reminded of the weakness of their position in such a buyers' market, with key customers like the Soviet Union getting extremely tough on contract terms.

The traders are also aware of an embarrassing irony in their situation. Fierce advocates of a free market for agriculture, they have become overwhelmingly dependent on government efforts to boost their sales.

Despite these common features, however, observers of the two companies note marked differences in their response to their predicament. Cargill, a huge empire with net worth of $2.6bn, sales of $32.3bn and 42,000 employees all over the world, seems to have continued, undaunted, its steady process of diversification in recent years. It is widely praised for its long-range planning, reinvesting a large proportion of its cash-flow in the business, and it has been encouraged to move further into other sectors by the vicissitudes of the grain trade.

Hence, troubled times in grain or soyabeans and dull performances in meat-packing and animal feed were offset last year by what management describes as good profits in so-called "wet-milling," whereby maize is converted to high-fructose sweetener and a range of other products, and orange juice.

Cargill has a small but growing presence in financial services, has built up its strength in commodity trading of all kinds from cotton—in which it is the world's largest—to copper, and agribusiness such as poultry production: in the UK, for example, it has found a lucrative niche in producing Chicken McNuggets for McDonald's fast food outlets. The company is also continuing to make a series of what can only be described as counter-cyclical acquisitions—such as two steel mills and a fertiliser company that was already in Chapter 11 bankruptcy proceedings. In the Netherlands it is negotiating to buy substantial cocoa processing interests.

Well over half of its earnings are now reckoned to come from activities other than grain trading, compared with an estimated 40 per cent in 1970.

Over at Continental, however, the theme is quite the opposite. The company was always a late and rather reluctant entrant to the trend towards diversification. From the mid-1960s on, it used its growing trading profits to buy into cereal and oilseed processing interests in the US and elsewhere. But over the past couple of years, the process seems to have been going into reverse.

"We got into these (other) businesses when they were growth areas, and margins were good and looked like remaining good," says the Continental manager in New York. "Now we've made a conscious decision to concentrate on our core business, the grain trade."

This is not to say that Continental plans to curtail its involvement in other areas altogether: it is still a formidable company with about 12,000 employees and extensive processing operations. But over the past two years there have been a couple of straws in the wind as to its thinking.

In 1984, Continental sold its once-successful commodity brokerage subsidiary, ContiCommodities, to the expanding Chicago futures firm Refco. In effect, it appears the company was cutting its losses at a time when margins and commissions in the US futures business—and particularly that involving agricultural futures—were undergoing an unprecedented squeeze.

Earlier this year Continental sold its UK oilseed crushing plant in Liverpool to none other than Cargill. Although it was a small deal, some Continental executives have read a greater significance into it. "We're selling plants and Cargill's buying: that shows who's in better shape right now," says one.

In the long term, if and when conditions on world grain markets improve, both companies expect to capitalise on the fact that they have stuck with it through the bad times. Indeed, Cargill executives regularly appear at international conferences to argue that the current depression is cyclical rather than structural.

"When things get back to the high-water mark in a few years' time, it could be favourable to those still in the business," says Continental.

But until then the companies are bracing themselves for a long and painful haul in the grain trade. Even if export volme picks up in the short-to-medium term, prices are likely to remain depressed and trading margins will be extremely thin for quite some time.

Loading grain on to a barge at Continental's Dubuque terminal in Iowa.

Canada's Red Dog zinc mine project to go ahead

BY BERNARD SIMON IN TORONTO

COMINCO, the Vancouver-based mining group, has decided to press ahead with construction of the world's biggest zinc mine in a remote part of North-west Alaska.

The company, which was recently taken over by a consortium of Canadian, West German and Australian mining companies, said that the open-pit Red Dog mine should be in production by 1991. The first stage of the project, a 52-mile road joining the proposed mine site to a port on the Chukchi Sea, will commence next spring, and engineering work at the mine will be accelerated during the course of 1987. A barge dock and staging area at the port site were completed last September.

The cost to Cominco of the project will be about US$235m. The Alaska Government will contribute $150m to finance the port and road work.

Red Dog's rich reserves are estimated at 77m tonnes, containing 17 per cent zinc, 5 per cent lead and 2.4 ounces per tonne of silver. Cominco said that the mine has an estimated life of at least 50 years.

Half of Red Dog's production will be processed at Cominco's large lead and zinc smelter at Trail, British Columbia, with the rest being distributed to smelters in the Far East and Europe. The deposit is named after the pet dog of a bush pilot who first noticed the red and orange-coloured zinc-bearing hillsides in the late 1950s.

Cominco announced separately that it has agreed to sell its Con gold mine in Canada's Northwest Territories to Nerco Minerals of Fairbanks, Alaska for $64m (£33m). Con is expected to produce 88,000 ounces of gold this year. The sale is part of a comprehensive asset disposal plan to reduce Cominco's debt.

Price rise hopes 'misplaced'

BY STEFAN WAGSTYL

ZINC PRODUCERS' hopes of sustained prices increase are misplaced, according to metal brokers Shearson Lehman Brothers in its latest annual review of the zinc and lead markets.

The report forecasts that zinc prices, which have fallen back in recent weeks from peaks seen in the summer, should stabilise at current levels though they could again be volatile in 1987. However, there is little reason to expect much overall increase in prices next year, says Shearson.

Mr Stephen Briggs, the review's author, says this year's price rise was driven by producers and was based largely on two temporary breaks in supply—caused by strikes at the Broken Hill mine, in Australia, and the Valleyfield smelter, in Canada.

"Only if significant rationalisation of capacity (or further unpredictable disruption) occurs will much higher prices be seen," says Mr Briggs. He adds that "despite all the fuss" there had been no smelter closures in the large European zinc industry.

Shearson forecasts that mine output will recover from a strike-affected 4.85m tonnes in 1986 to 5.06m tonnes next year, with consumption increasing slightly from 4.83m tonnes to 4.93m tonnes. Prices could average 34 cents a pound in 1987, the same as 1986.

Lead prices are expected to firm slightly from an expected 18.3 cents a pound this year to 19.5 cents in 1987. Mr Briggs says that one of the strengths of the lead market is often underestimated—the large and secure market for vehicle batteries which should grow as the number of vehicles in the world continues to rise.

Annual Review of the World Lead and Zinc Industries 1986, Shearson Lehman Brothers, 36, Monument St, London EC3R 8LJ.

Strike causes copper force majeure

By Bernard Simon

NORANDA, the Canadian metals group, has declared force majeure on January shipments of copper cathodes from its CCR refinery in Montreal, following a strike by 800 workers at the company's Horne smelter in Quebec.

The news, coming amid reports of possible industrial action at Southern Peru Copper, boosted copper prices. On the London Metal Exchange, three month Grade A metal rose by £4.25 to £921 a tonne.

The Horne smelter contributes almost half of CCR's monthly output of 32,000 short tons of copper. Non-union workers at Horne are keeping part of the plant open, but production has been reduced to only 500 tons a week.

Operations at Horne have been intermittently disrupted since the workers' contract expired at the end of August. The strike began on November 5, but Noranda said that CCR would be able to meet all its December commitments.

A labour dispute closed Norande's zinc refinery at Valleyfield, Quebec, for five months earlier this year.

At Southern Peru Copper, trade union leaders have threatened to call a strike from today in support of a pay claim.

Aluminium producers cut costs to the bone

BY STEFAN WAGSTYL

ALUMINIUM producers, who have spent most of the 1980s battling with weak prices, have managed to cut costs further in 1986.

In a study of production costs, Anthony Bird Associates, a UK research group, says that the average operating cost of Aluminium smelters in the West is now 46 cents a pound, down from 48 cents last year. After capital charges, the average cost is 62 cents.

But the report warns that further cuts are unlikely and that in real terms costs will probably rise at 2-3 per cent a year.

With the help of the fall in the dollar and vigorous cost-cutting, US smelters costs are now only about 10 per cent higher than in Europe, says the group.

The study shows that three countries, Australia, Canada and Brazil, have lower average production costs than any individual major company. This is explained by the fact that no major company operates exclusively in any of these countries, so those enjoying these low cost levels have their averages raised by higher cost operations elsewhere.

1986 PRODUCTION COSTS
(excluding interest and depreciation)
(in cents per lb)

By major company		By country	
ASV Norsk	43	Australia	38
Comalco	43	Canada	39
Alcan	44	Brazil	42
VAW	44	Norway	44
Alusuisse	44	W. Germany	46
Pechiney	47	France	50
Alcoa	47	US	52
Alumax	48		
Reynolds	49		
Kaiser	51		

Aluminium Production Costs, Anthony Bird Associates, 193 Richmond Road Kingston upon Thames, KT2 5DD, price £3,600.

Government to intervene in tin court case

By Raymond Hughes, Law Courts Correspondent

THE INTERNATIONAL Tin Council is to plead immunity and ask the High Court to strike out a winding-up petition launched against it by a London Metal Exchange trading company.

The UK Government will be represented at the hearing which the court yesterday ruled should start on December 8. Mr Anthony Grabiner, QC, for Sir Michael Havers, the Attorney General, said the Government wanted to intervene in the case because the petition involved an inquiry into the foreign relations between the UK and other sovereign states that belonged to the tin council.

Mr Richard Sykes, QC, for the ITC, told the court yesterday that the basis of the application was that the ITC was governed by international law and not by English law.

The ITC was constituted by a treaty between sovereign states and immune from, and outside the jurisdiction of, the English courts, Mr Sykes told Sir Nicolas Browne-Wilkinson.

The petition, which would involve the UK in a violation of its treaty obligations, had been presented by Amalgamated Metal Trading, a subsidiary of Preussag, the West German metals group, on November 12 after a "barrage of publicity" from Tinco Realisations, a group of LME companies, including AMT, that have banded together to pursue their claims against the ITC.

The continuing publicity made it doubly urgent that the ITC's application should be heard as soon as possible, said Mr Sykes.

He said there would be an issue about whether AMT was entitled to use, for the purposes of the petition, material derived from the ITC's archives.

Mr Andrew Morritt, QC, for AMT, asked that the hearing be deferred until December 11 because Mr Elihu Lauterpacht, QC, a leading member of AMT's legal team, would not be available before then.

The judge said that the case should start on December 8. If Mr Lauterpacht found problems in catching up an adjournment could be sought. The hearing is expected to last nine days.

In its petition AMT asserts that the governments of the UK and the other 21 member states of the ITC are legally liable for its debts.

AMT, petitioning as a creditor of the ITC for £5.3m, contends that under the 1985 Companies Act creditors of the ITC have the right to enforce the member governments' liability to contribute to the debts and liabilities of the ITC.

Mr Paul Channon, the Trade and Industry Secretary, has stated that the UK Government does not accept any liability whatsoever and that the dispute is between the ITC and the metals brokers.

LONDON MARKETS

COFFEE FUTURES fell sharply again near the close yesterday as attention continued to be focused on the prompt November position, which expires at midday today. That position had been boosted earlier in the week by concern about the large uncovered position and the large amount of robustas coffee graded as undeliverable under the terms of the London contract. At one time the November premium over the January futures position had reached £210 a tonne as a result. But a large amount of deliverable coffee was graded on Wednesday and the premium was more than halved. Yesterday it was virtually eliminated with the November position falling by £116 to £2,035 a tonne while the January contract lost only £24.50 to £2,077.50 a tonne. Apart from the November position's technical volatility traders said the market was quite dull, partly reflecting the closure of the New York market for Thanksgiving. Physical market activity was also minimal, they noted. On the London Metal Exchange the zinc price continued to drift lower with the cash high grade quotation ending at a three-month low of £543 a tonne, down £8.50 on the day and £17.50 on the week so far.

LME prices supplied by Amalgamated Metal Trading.

ALUMINIUM

	Unofficial + or close (p.m.) £ per tonne	High/Low
Cash	781.5-2.5 +1	783/781
3 months	798-9.5	[illegible]

Official closing (am): Cash 781-1.5 (784-4.5), three months 799-9.5 (800.5-1), settlement 781.5 (784.5). Final Kerb close: 797-8. Turnover: 24,800 tonnes.

COPPER

Grade A	Unofficial + or close	High/Low
Cash	920.5-1.5 +4.5	927/925
3 months	943.5-4.5 +3.25	950/943

Official closing (am): Cash 925.5-6.5 (913.5-7), three months 950.5-1 (941.5-2), settlement 926.5 (917). Final Kerb close: 946.5-7.

Standard		
Cash	890-900 +5	—
3 months	906-8 +6	—

Official closing (am): Cash 900-3 (894-4.5), three months 930-2 (922-3.5), settlement 903 (894.5). US Producer prices 62.65-63 cents a pound. Total Turnover: 18,800 tonnes.

LEAD

	Unofficial + or close (p.m.) £ per tonne	High/Low
Cash	333-40	337/336
3 months	320-1 -1.25	323/316

Official closing (am): Cash 335-6 (342-3), three months 316-6.5 (322.5-3), settlement 336 (343). Final Kerb close: 320-20.5. Turnover: 14,350 tonnes. US Spot: 24-28 cents a pound.

NICKEL

	Unofficial + or close (p.m.) £ per tonne	High/Low
Cash	2560-70 +56.5	2570/2545
3 months	2610-5	[illegible]

Official closing (am): Cash 2,560-2 (2,545-50), three months 2,605-5 (2,580-90), settlement 2,562 (2,550). Final Kerb close: 2,610-1. Turnover: 1,026 tonnes.

TIN

KUALA LUMPUR TIN MARKET—Close: 16.20 (16.15) ringgit per kg. Up 0.05 ringgit per kg.

ZINC

High grade	Unofficial + or close (p.m.) £ per tonne	High/Low
Cash	542-4 -8.5	546/544
3 months	541-5 -6.25	546/540

Official closing (am): Cash 544-4.5 (553.5-3.75), three months 541-2 (549-5), settlement 544.5 (553.75). Final [illegible]

INDICES

REUTERS

Nov. 26	Nov. 25	M'th ago	Year ago
1609.6	1611.9	1594.4	1714.5

(Base: September 18 1931=100)

DOW JONES

Dow Jones	Nov. 26	Nov. 25	M'th ago	Year ago
Spot	119.35	118.88	—	120.52
Fut	117.94	117.50	—	121.56

(Base: December 31 1931=100)

MAIN PRICE CHANGES

In tonnes unless otherwise stated.

	Nov. 27 1986	+ or −	Month ago
METALS			
Aluminium			
Free Market	$1185/205		$1230/250
Copper			
Cash Grade A	£921	+4.25	£936.5
3 mths	£946	+3.25	£958.75
Gold Troy oz	$383.5	+1.25	$408.5
Lead Cash	£330.5		£319.75
3 mths	[illegible]		[illegible]
Nickel	[illegible]		[illegible]
Free Mkt	$116/150		[illegible]
Palladium oz	$116.50	−1.15	$129.25
Platinum oz	$480.25	+3.25	[illegible]
Quicksilver†	$160/170		[illegible]
Silver troy oz	368.65p	−0.65	397.05p
3 mths	379.05p	−0.85	407.70p
Tin			
Free Mkt	[illegible]	+20	[illegible]
Tungsten	[illegible]		[illegible]
Wolfram 22.04lb	[illegible]		[illegible]
Zinc	£543	−8.5	[illegible]
3 mths	£541.5		[illegible]
Producers	$920		$920
OILS			
Coconut (Phil)	$410z		$450
Palm Malayan	$307.5u		$330
SEEDS			
Copra (Phil)	$280v		$300
Soyabeans (U.S.)	$164y	+1	$160
GRAINS			
Barley Fut. Mar.	£114.80	+0.25	£118.90
Maize	£146.00		£144.25
Wheat Fut. Mar.	£114.00	+0.15	£111.15
No. 2 Hard Wint.	[illegible]		[illegible]
OTHERS			
Cocoa Ft. Mar.	£1462.5	+1	£1546.5
Coffee Ft. Jan.	£2077.5	−24.5	£2286
Cotton A Ind.	54.10c	+0.5	50.95c
Gas Oil Jan.	$130	−0.75	$131.25
Rubber (kilo)	62.5p		67.5p
Sugar (raw)	$148x		$141
Wooltops 64s	425p kilo		418p kilo

‡ Unquoted. † Per 76-lb flask. c Cents a pound. x Cotton outlook. y Nov-Dec. v Dec. z Jan-Feb. u Dec-Jan.

Kerb close: 540.1. Turnover: 12,750 tonnes. US Prime Western: 44-50.75 cents a pound.

GOLD

Gold rose $1¾ an ounce from Wednesday's close in the London bullion market yesterday to finish at $383-383½. The metal opened at $382¾-383¼ and traded between a high of $384 and a low of $382-382½. Trading was extremely quiet, with the closure of US centres for Thanksgiving Day.

GOLD BULLION (fine ounce) Nov. 27

Close	$383¼-383¾	(£268-268½)
Opening	$382¾-383¼	(£268-268½)
M'ning fix	$383.55	(£267.811)
Aft'n'n fix	$383.50	(£267.957)

GOLD AND PLATINUM COINS

Am Eagle	$398-403	(£278¼-281¾)
Maple leaf	$392¼-397	(£275-277¾)
Kr'g'rnd	$380-383	(£266¼-268)
½ Krug.	$194¼-196¼	(£136-136¾)
¼ Krug.	$99½-101¼	(£69-69¾)
1/10 Krug	[illegible]	[illegible]
1/10 Angel	$40-45	[illegible]
New Sov.	$88½-89½	[illegible]
½ New Sov.	[illegible]	[illegible]
Old Sov.	$91¾-93½	[illegible]
$20 Eagle	$465-505	[illegible]
Noble Plat	$489-499	[illegible]

SILVER

Silver was fixed 0.65p an ounce lower for spot delivery in the London bullion market yesterday at 368.65p. US cent equivalents of the fixing levels were: Spot 528.5c, down 1.5c; three-month 534.35c, down 1.5c; six-month 541.7c, down 2.3c; and 12-month 557.1c, down 3.2c. The metal opened at 369-370p (528-529¼c) and closed at 369½-370½ (528-530c).

SILVER per troy oz	Bullion Fixing Price	+ or −	L.M.E. p.m. Unofficl	+ or −
Spot	368.65p	−0.65	368p	+5.5
3 months	379.05p	−0.85	378.5p	+3.5
6 months	389.15p	−1.15	—	
12 months	409.55p	−1.45	—	

LME—Turnover: 3 (10) lots of 10,000 oz. Three months final kerb 378-9p.

RUBBER

PHYSICALS—The London market opened about unchanged, attracted little interest throughout the day and closed quiet and uncertain, reports Lewis and Peat. Closing prices (buyers): Spot 62.50p (62.75p); Jan 60.50p (60.75p); Feb 60.75p (61.00p). The Kuala Lumpur fob prices (Malaysia/Singapore cents a kilo): RSS No 1 211.5 (same) and SMR 20 192 (same).

FUTURES—Index 642, Jan 640-650, Jan-March 645-655, April/June 655-665, July/Sept 661-676. Sales: 10.

COFFEE

New deliveries against the spot November position formed the basis of a weak performance by the robusta market, reports Drexel Burnham Lambert. Volume was restricted by the US Thanksgiving holiday, but in the spot month it was relatively high as prices tumbled £110.

COFFEE	Yesterday's close	+ or −	Business Done
Nov	2008-50	−116.0	2160-2005
Jan	2075-80	−24.5	2160-2075
Mar	1951-55	−5.0	1980-1951
May	1958-60	+3.5	1985-1960
July	1980-85		2000-1985
Sept	1980-90		2005-2000
Nov	1990-10		[illegible]

Sales: 2,199 (3,815) lots of 5 tonnes. ICO indicator prices (US cents per pound) for November 26: Comp. daily 1979 142.00 (142.87); 15-day average 147.31 (148.33).

COCOA

With the New York market closed for the Thanksgiving holiday, futures were confined to a £5 range and ended a dull session virtually unchanged on the day. Actuals trading was also quiet, although underlying manufacturer interest was noted, reports Gill and Duffus.

COCOA	Yesterday's close £ per tonne	+ or −	Business Done
Dec	1422-1423	+1.0	1425-1420
Mar	1462-1463	+1.0	1464-1459
May	1484-1485	−0.5	1487-1482
July	1505-1506	−1.5	1509-1504
Sept	1530-1531	+0.5	1532-1528
Dec	1556-1559	−1.0	1558-1556
March	1582-1587	−1.5	1587-1585

Sales: 1,969 (4,114) lots of 10 tonnes. ICCO indicator prices (US cents per pound). Daily price for November 26: 90.54 (90.16); five-day average for November 27: 90.81 (90.91).

POTATOES

After an initial dip of £1, basis April, strong buying interest emerged in good volume to push values up to a morning high of £155.80. This interest continued immediately on the afternoon opening, with a firmer Dutch market and speculation as to how the crop was storing. However, the market closed on a weaker note, £1.80 up on the day, reports Coley and Harper.

Month	Yesterday's close	Previous close	Business Done
	£ per tonne		
Feb	111.30	110.50	111.50
April	154.60	152.80	155.80-152.50
May	176.30	171.60	174.80-172.50
Nov	97.50	97.50	—
Feb	105.50	95.60	—

Sales: 1,207 (786) lots of 40 tonnes.

GRAINS

Old crop wheat saw a dull but steady trade, with January/March switching the main feature. Barley remained steady with a good shipper-to-shipper exchange on January. New crops found shipper support against country hedge selling, reports T. G. Roddick.

Month	WHEAT Yesterday's close	+ or −	BARLEY Yest'rdy's close	+ or −
Jan	111.10	+0.10	112.70	+0.05
Mar	113.85	+0.15	114.80	+0.25
May	116.10	+0.10	116.05	+0.05
July	117.60		—	
Sept	101.45	+0.05	100.65	+0.05
Nov	103.70		103.80	

Business done—Wheat: Jan 111.10-110.90, Mar 114.00-113.80, May 116.10-116.00, July unquoted, Sept 101.40-1.00, Nov 103.75-3.70. Sales: 152 lots of 100 tonnes. Barley: Jan 112.70-2.55, Mar 114.80-4.55, May 116.05-6.00. Sept and Nov untraded. Sales: 105 lots of 100 tonnes.

LONDON GRAINS—Wheat: US Dark Northern Spring No 1, 15 per cent: Dec 106.25, Jan 107.25, Feb 108.25, March 109.00. French 11½ per cent: Dec 140.50. English feed, fob: Dec 113.25-114.00, Jan/March 116.50-117.00, April/June 118.50-119.25 buyer/sellers. Maize: US No 3 Yellow/French, transhipment East Coast: Dec 145.00. Barley: English feed, fob: Dec 113.50 buyer Scottish, Jan 112.50 buyer Scottish, Jan/March 117.50-118.50 buyer/sellers English.

HGCA—Locational ex-farm spot prices (including co-responsibility levy of £3.37 a tonne). Feed barley: E. East 111.60, S. West 111.00, W. Midlands 110.80, N. West 109.10. The UK monetary coefficient for the week beginning Monday, December 1, is expected to be unchanged.

SOYABEAN MEAL

	Yest'rdy's close	+ or −	Business done
	£ per tonne		
Dec	124.8-125.2	+0.55	—
Feb	127.7-128.2	+0.25	—
April	129.2-129.7	+0.15	130.0-129.2
June	[illegible]	+0.15	[illegible]
August	[illegible]		—
October	[illegible]		—
Dec	[illegible]		—

Sales: 105 (131) lots of 20 tonnes.

MEAT

MEAT COMMISSION—Average fatstock prices at representative markets. GB—Cattle 93.72p per kg lw (+1.36). GB—Sheep 183.18p per kg est dcw (+10.68). GB—Pigs 76.87p per kg lw (—0.27).

FUTURES—Live cattle: Nov. 94.80. Sales: 2.

SUGAR

LONDON DAILY PRICE—Raw sugar $148.00 (£103.00), unchanged a tonne for Dec-Jan delivery. White sugar $179.00, down 50c.

No. 6 Contract	Yest'rdy's close	Previous close	Business done
Dec	[illegible]	[illegible]	[illegible]
Mar	147.8-148.2	148.4	[illegible]
May	151.8-151.8	151.4	[illegible]
Aug	154.8-154.6	[illegible]	[illegible]
Oct	157.2-157.6	[illegible]	[illegible]
Dec	160.0-161.0	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]

Sales: 934 (1,041) lots of 50 tonnes. Tate and Lyle delivery price for granulated basis sugar was £205.50 (same) a tonne for export.

International Sugar Agreement—(US cents per pound fob and stowed Caribbean ports). Prices for November 26: Daily price 5.91 (5.75); 15-day average 5.93 (5.95).

PARIS—(FFr per tonne): March 1182-1190, May 1220-1234, Aug 1256-1264, Oct 1289-1296, Dec 1328-1335, March 1367-1375.

FREIGHT FUTURES

	Close	High/Low	Prev.
Dry Cargo			
Jan.	690/691	695/690	690/693
April	720/722	724/720	725/730
July	620/623	620	621/625
Oct.	725/725	730/721	725/733
Jan.	710/725	—	730/732
Apr.	800/830	—	800/815
July	650/695	—	660/695
Oct.	740/—	—	780/830
BFI	747	—	[illegible]

Turnover 51 (56).

	Close	High/Low	Prev.
Tankers			
Nov.	560/925	—	570/940
Dec.	850/950	—	400
BFI	930	—	933.5

Turnover: 0 (1).

OIL

In the petroleum products market prompt gas oil was little discussed and no deals were seen. Naphtha was weaker on the back of weaker forward prices. Gasoline was weaker on the absence of US buyers. Fuel oil was quiet. The holiday in the US dried-up trade in all areas of crude, in limited talk prices barely changed from the previous London close—Petroleum Argus, London.

	Latest	Change + or −
CRUDE OIL—FOB ($ per barrel)—Dec.		
Arab Light	—	
Arab Heavy	—	
Dubai	—	
Brent Blend	13.60-13.80	+0.05
W.T.I. (1 pm est)	14.45-14.55	+0.05
Forcados (Nigeria)	—	
Urals (cif NWE)	—	
PRODUCTS—North West Europe Prompt delivery cif ($ per tonne)		
Premium gasoline	140-144	−1
Gas Oil	132-134	[illegible]
Heavy fuel oil	[illegible]	[illegible]
Naphtha	123-125	[illegible]

* January. Petroleum Argus estimates.

GAS OIL FUTURES

Month	Yest'rdy's close	+ or −	Business Done
	US $ per tonne		
Dec.	133.75	−1.50	[illegible]
Jan.	130.00	−0.75	[illegible]
Feb.	128.00	−0.75	[illegible]
Mar.	126.00	[illegible]	[illegible]
Apr.	122.00	[illegible]	[illegible]
May	121.00	[illegible]	[illegible]

Turnover 1,440 (4,221) lots of 100 tonnes.

HEAVY FUEL OIL

Month	Yest'rdy's close	+ or −	Business Done
	US $ per tonne		
Dec.	71.50	[illegible]	—
Jan.	74.50	+5.50	74.50-73.50
Feb.	77.75	[illegible]	—

Turnover: 12 (6) lots of 100 tonnes.

The US markets were closed yesterday for Thanksgiving

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Sterling up from weak start

STERLING RECOVERED from a weaker start to finish little changed on the day. Early trading saw the pound lose ground in reaction to a report by the National Institute for Economic and Social Research which forecast a current account deficit of £5.6bn in 1987 and £7.2bn in 1988. This was the gloomiest projection to date and contrasted sharply with Treasury forecasts which suggested a much small deficit. Sterling's exchange rate index opened at 68.0 down from 68.2 on Wednesday and dipped to 67.9 during the morning before recovering to close at 68.1.

Further unrest in the Middle East and the prospect of higher oil prices may have given sterling some underlying support although dealers stressed that because of the low volume these factors were not really having much influence. The pound closed at $1.4290 from $1.4320 and DM 2.8425 compared with DM 2.8500. Against the yen it eased to Y232.50 from Y233.25 and SFr 2.3725 from SFr 2.3750. In terms of the French franc it finished at FFr 9.3125 from FFr 9.3375.

The dollar showed little overall change in view of the closure of US centres for Thanksgiving Day. With little prospect of a return today to full trading ahead of the weekend, dealers were content to square off positions until Monday. Some suggested that Christmas lethargy was already starting to set in. Concern about the effects of the Iran arms deal controversy tended to undermine the US unit but this was countered by small but persistant corporate demand ahead of the year end. The dollar closed at DM 1.9890 from DM 1.9895 and Y162.70 from Y162.95. Against the Swiss franc it finished at SFr 1.66 from SFr 1.6585 and FFr 6.5175 compared with FFr 6.5200. On Bank of England figures, the dollar's exchange rate index was unchanged at 110.5.

D-MARK — Trading range against the dollar in 1986 is 2.4710 to 1.9740. October average 2.0038. Exchange rate index 143.5 against 133.7 six months ago.

Trading was quiet in Frankfurt yesterday because of the closure of US centres for a holiday. The dollar was fixed at DM 1.9898 compared with DM 1.9881 on Wednesday and there was no intervention by the Bundesbank. Persistent corporate demand tended to offset the effects of the recent controversy about US arms sales to Iran. News of a rise in the West German trade surplus appeared to have little effect but served to underline the limited effect on trade so far by a stronger D-Mark. October's current account surplus rose to DM 8.0bn from DM 6.7bn in September while the visible trade surplus widened to DM 10.7bn from 10.4bn. The dollar closed at DM 1.9900 from DM 1.9860.

JAPANESE YEN — Trading range against the dollar in 1986 is 202.70 to 152.35. October average 156.36. Exchange rate index 204.5 against 204.2 six months ago.

Trading was confined to a narrow range in Tokyo with many participants staying on the sidelines because of the closure of US centres. Comments made by Mr Satoshi Sumita, Governor of the Bank of Japan, suggesting that the US trade deficit had peaked and at the same time adding that the yen should remain strong in order to reverse Japan's trade imbalance were nothing new and fell upon a market showing a much reduced turnover. There was therefore little reaction.

The dollar closed at Y162.80 from Y162.50 on Wednesday and Y163.10 overnight in New York. Concern about the problems caused by US secret arms sales to Iran was also a factor keeping dollar sentiment bearish.

The Nigerian naira was set at 3.4945 to the dollar at yesterday's weekly auction in Lagos compared with 3.4599 the previous week. The effective rate for transactions which includes a 0.5 per cent premium added by the central bank was 3.5121 from 3.4773.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu November 27	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	43.1139	43.2554	+0.33	+1.09	±1.5368
Danish Krone	7.81701	7.85849	+0.53	+1.29	±1.6405
German D-Mark	2.11083	2.07998	−1.46	−0.70	±1.1127
French Franc	6.87316	6.81338	−0.87	−0.11	±1.3659
Dutch Guilder	2.37833	2.35080	−1.16	−0.40	±1.5059
Irish Punt	0.764976	0.764355	−0.08	+0.68	±1.6683
Italian Lira	1476.95	1441.41	−2.41	−1.95	±4.0734

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

£ IN NEW YORK

Nov 27	Closed	Previous Close
£ Spot	1.4290-1.4300	1.4305-1.4315
1 month	0.56-0.53 pm	0.63-0.62 pm
3 months	1.79-1.74 pm	1.79-1.76 pm
12 months	6.35-6.25 pm	6.70-6.60 pm

Forward premiums and discounts apply to the U.S. dollar.

STERLING INDEX

POUND SPOT—FORWARD AGAINST THE POUND

CURRENCY RATES

DOLLAR SPOT—FORWARD AGAINST THE DOLLAR

CURRENCY MOVEMENTS

EURO-CURRENCY INTEREST RATES

OTHER CURRENCIES

* Selling rate.

EXCHANGE CROSS RATES

Yen per 1,000: French Fr per 10: Lira per 1,000: Belgian Fr per 100.

FINANCIAL FUTURES

Gilts very active

LONG TERM gilt futures were very firm on the London International Financial Futures Exchange yesterday. Trading was active, at a total of 30,311 for December and March delivery, but in other areas the Liffe market was quiet, influenced by the closure of Chicago for Thanksgiving.

March long term gilt futures opened at 107-25, firmer than the previous close, in spite of a weaker trend for sterling in early London trading, with the exchange rate index falling to 67.9 at 9 am. The generally gloomy tone at the open of trading in London followed the forecast of a widening UK balance of payments deficit over the next two years by the National Institute for Economic and Social Research, and the institute's prediction of low growth, rising inflation and higher public borrowing.

But buying in the cash market soon developed, encouraging the firmer opening on Liffe.

March long gilts touched a low of 107-17 and touched a peak of 108-31, before closing at 108-16 compared with 107-19 on Wednesday.

Three-month sterling deposit futures closed at the day's peak of 88.79 for March delivery, compared with 88.77 previously. The contract opened at 88.76 and touched a low of 88.72.

Trading in dollar denominated contracts was quiet, with volume in London restricted because of the closure of US markets. March three-month Eurodollars showed very little movement, opening unchanged at 94.09 and closing at 94.08. December Treasury bond futures closed near the day's high, at 99-15.

In the options and futures tables below prices quoted in London are for November 27. Prices quoted in Philadelphia and Chicago are for November 26. US markets were closed yesterday for Thanksgiving Day.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls—Last Mar.	Calls—Last June	Puts—Last Mar.	Puts—Last June
100	8.46	8.62	0.14	0.30
102	6.60	7.20	0.28	0.52
104	5.21	5.51	0.53	1.19
106	3.59	4.30	1.27	1.62
108	2.48	3.22	2.16	2.54
110	1.54	2.28	3.22	3.60
112	1.11	1.45	4.43	5.13
114	0.45	—	6.13	—

Estimated volume total, Calls 766 Puts 453
Previous day's open int. Calls 11,124 Puts 3,205

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls—Last Mar.	Calls—Last June	Puts—Last Mar.	Puts—Last June
88	10.50	—	0.04	—
90	8.55	8.30	0.09	0.42
92	7.03	6.56	0.21	1.04
94	5.24	5.28	0.42	1.40
96	3.59	4.13	1.13	2.25
98	2.46	3.10	2.00	3.22
100	1.49	2.19	3.03	4.31
102	1.06	1.41	4.24	5.53

Estimated volume total, Calls — Puts —
Previous day's open int. Calls — Puts —

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls—Last Dec.	Calls—Last Jan.	Puts—Last Dec.	Puts—Last Jan.
15500	8.92	—	0.32	—
15750	6.70	9.79	0.65	0.89
16000	4.89	7.84	1.29	1.44
16250	3.33	6.11	2.23	2.21
16500	2.12	4.62	3.52	3.22
16750	1.26	3.38	5.16	4.48
17000	0.69	2.40	7.09	6.00
17250	0.35	1.64	9.25	7.74

Estimated volume total, Calls 0, Puts 0
Previous day's open int. Calls 559, Puts 405

LIFFE £/$ OPTIONS

LONDON SE £/$ OPTIONS

PHILADELPHIA SE £/$ OPTIONS

LIFFE—EURODOLLAR OPTIONS

LONDON

CHICAGO

EUROPEAN OPTIONS EXCHANGE

TOTAL VOLUME IN CONTRACTS: 25,675

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

MONEY MARKETS

London rates a little firmer

INTEREST RATES had a slightly firmer tone on the London money market yesterday, but trading was quiet. There was some nervousness at the outset as sterling weakened on the gloomy forecast for the UK economy by the National Institute for Economic and Social Research, but the pound's better tone later in the day and the strength of the gilt market helped restore confidence. Three-month interbank rose slightly to $11\frac{7}{16}$-$11\frac{5}{16}$ per cent from $11\frac{3}{8}$-$11\frac{1}{4}$ per cent, with demand for money on rollover business adding to the slight upward pressure on rates.

UK clearing bank base lending rate 11 per cent since October 15

The Bank of England initially forecast a money market shortage of £350m, but revised this to £400m at noon, and provided total help on the day of £315m.

Before lunch the authorities bought £176m bills outright, by way of £21m bank bills in band 1 at $10\frac{7}{8}$ per cent; £36m bank bills in band 2 at $10\frac{13}{16}$ per cent, £43m bank bills in band 3 at $10\frac{3}{4}$ per cent; £4m Treasury bills in band 4 at $10\frac{11}{16}$ per cent; £7m local authority bills in band 4 at $10\frac{11}{16}$ per cent; and £65m bank bills in band 4 at $10\frac{11}{16}$ per cent.

In the afternoon the Bank of England purchased another £139m bills outright, through £35m bank bills in band 1 at $10\frac{7}{8}$ per cent; £45m bank bills in band 2 at $10\frac{13}{16}$ per cent; and £59m bank bills in band 3 at $10\frac{3}{4}$ per cent.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £327m, with a rise in the note circulation absorbing £50m, and bank balances below target £80m. These outweighed Exchequer transactions adding £95m to liquidity.

In Paris the Bank of France left its money market intervention rate at 7 per cent when it added liquidity to the banking system against certificates of first category paper. The purchase is effective today and is against 60 per cent of paper maturing between January 1 and 31. The intervention rate was last cut by ¼ per cent on June 16.

In Tokyo Japanese long term banks have cut their long term prime rate to a record low of 6.2 per cent from 6.4 per cent. The cut follows the decision by banks to make a 0.2 per cent cut in the coupon rate on five-year debentures to 5.3 per cent and was also influenced by falling bond market yields. The 6.4 per cent rate had been in effect since March 28. The banks involved are the Industrial Bank of Japan; Long-term Credit Bank of Japan; and Nippon Credit Bank.

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

$ WORLD VALUE OF THE DOLLAR

BANK OF AMERICA GLOBAL TRADING ECONOMICS DEPT., LONDON

The table below gives the rates of exchange for the U.S. dollar against various currencies as of Wednesday, November 26, 1986. The exchange rates listed are middle rates between buying and selling rates as quoted between banks, unless otherwise indicated. All currencies are quoted in foreign currency units per one U.S. dollar except in certain specified areas. All rates quoted are indicative. They are not based on, and are not intended to be used as a basis for, particular transactions.

Bank of America NT & SA does not undertake to trade in all listed foreign currencies, and neither Bank of America NT & SA nor the Financial Times assume responsibility for errors.

Bank of America Global Trading, London, New York, Tokyo, San Francisco, Los Angeles, Toronto. 24-hours a day trading capability. Enquiries: 01-634 4360/5. Dealing 01-236 9861.

ECU=$US1.04356 SDR1=$US1.20703
As of November 26, at 11.00 a.m.
Eurodollar Libor / Sibor: 3 months / 6 months

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1986 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
102	100	Exch. 13¼pc 1987	100¼	.....	[illegible]	10.73
[illegible]	97	Treas 10¼pcCv '87	99	.....	[illegible]	10.81
[illegible]	92	Exch 2½pc 1987	98	.....	[illegible]	0.49
[illegible]	[illegible]	Exch. 10½pc 1987	99	.....	[illegible]	11.20
[illegible]	[illegible]	Funding 6½pc 85-87	98	−	[illegible]	9.92
[illegible]	[illegible]	Treas. 10pc 1987	99	−	[illegible]	11.24
97	[illegible]	Treas 3pc 1987	96	−	[illegible]	8.52
[illegible]	[illegible]	Treas. 12pc 1987	100	.....	[illegible]	11.16
[illegible]	[illegible]	Treas 7¾pc 1985-88‡‡	97	.....	7.[illegible]	10.48
104	[illegible]	Exch 10½pc '88	99	.....	[illegible]	11.23
[illegible]	[illegible]	Treas 9¾pc Cv '88	98	+	9.[illegible]	11.20
[illegible]	[illegible]	Transport 3pc '78-88	92	−	[illegible]	8.11
[illegible]	93	Treas. 9½pc '88	97	+	9.[illegible]	11.25
107	98	Treas 11½pc 1989	100	+	[illegible]	11.21
[illegible]	93¼	Treas 9¼pc Cnv 1989	96	+	[illegible]	11.22
[illegible]	82	Treas 3pc 1989	88	.....	[illegible]	8.17
[illegible]	95	Treas 10½pc 1989	98	+	[illegible]	11.23
[illegible]	94	Exch 10pc 1989	97	+	[illegible]	11.29
107	97	Exch 11pc 1989	99	+	[illegible]	11.21
[illegible]	84	Treas 5pc 1986-89	89	+	[illegible]	9.39
110	94	Exch 10¼pcCv '89	100	+	[illegible]	10.23
114	103	Treas 13pc 1990‡‡	104	+	[illegible]	11.17
[illegible]	97½	Exch 11pc 1990‡‡	99	+	[illegible]	11.12
[illegible]	101	Exch. 12½pc 1990	100	+	[illegible]	11.17
[illegible]	79	Treas. 3pc 1990	83	−	[illegible]	8.39
100	89¼	Treas 8¼pc 1987-90‡‡	93	+	[illegible]	10.55
[illegible]	93	Treas. 10pcCv 1990	96	+	[illegible]	11.16
[illegible]	76	Exch 2½pc 1990	89	+	[illegible]	8.28
[illegible]	99	Treas 11¾pc 1991	102	+	[illegible]	11.24
[illegible]	83	Funding 5¾pc '87-91‡‡	87	+	[illegible]	9.45
[illegible]	79	Treas. 3pc 1991●	79	+	3.7[illegible]	8.56
[illegible]	95	Treas 10pc Cv '91	96	.....	[illegible]	11.11
[illegible]	96	Exch. 11pc 1991	99	+	[illegible]	11.18

Five to Fifteen Years

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

Index-Linked

[illegible]

INT. BANK AND O'SEAS GOVT STERLING ISSUES

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

Financial

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

AMERICANS—Cont.

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Cont

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY & STORES—Cont.

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Continued

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS—Continued

[illegible]

INDUSTRIALS—Continued · LEISURE—Continued · PROPERTY—Continued · INVESTMENT TRUSTS—Cont. · FINANCE, LAND—Cont. · MINES—Continued

Miscellaneous

High	Low	Stock	Price	+ or –	Div Net	Cvr	Y'ld Gr's
112	30	Anglo-Dominion	95	–4	—	—	—
42	19½	Anglo Utd	27	–1	—	—	—
80	27	♥Colby Res Corp.	30	.....	—	—	—
300	115	Cons. March. 10c	£17½	.....	Q60c	4.4	9.9
44	24	♥Essex Int. Ir10p	42	–1	—	—	—
159	70	Greenwich Res.	155	.....	—	—	—
157	93	Hampton Areas 10p	146	.....	♦1.0	—	1.0
327	165	♥Highwood Res.	218	–4	—	—	—
£20¾	£13¾	Homestake Mining $1	£13⅞	+⅛	Q20c	—	0.8
310	156	♥McFinley Red Lake	195	+1	—	—	—
285	144	♥Mistin Explorations	205	–7	—	—	—
51	28	♥New Sabina Res C$1	50	.....	—	—	—
353	200	Northgate C$1	297	+7	—	—	—
790	513	RTZ	669	+1	22.0	2.4	4.6
£164	£115	Do. 9½pcLn '95-2000	£140¼	.....	Q9½%	15.5	6.9

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 29 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- • Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ♦ Figures or report awaited.
- ♥ Not officially UK listed; dealings permitted under Rule 535(4)(a).
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 535(3).
- # Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♦ Not comparable.
- ♦ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- † Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ‖ No par value.

B.Fr. Belgian Francs. Fr. French Francs. ♦♦ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1985. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Stock	Price	+ or –	Stock	Price	+ or –
Albany Inv 20p	58	.....	Fin. 13% 97/02	£96¼	.....
Craig & Rose £1	£25¼	+¼	Arnotts	265xd	.....
Finlay Pkg. 5p	46	–1	CPI Hldgs	39	.....
Holt (Jos) 25p	418	.....	Carrol Inds.	136	.....
Joll Stm. £1	75	.....	Dublin Gas	11	.....
			Hall (R. & H.)	95	.....
IRISH			Helton Hldgs.	27	.....
Fund 11¼% 1900	£96¼	.....	Irish Ropes	148	.....
Nat. 9¾% 84/89	£93⅞	.....	Unidare	258	.....

"Recent Issues" and "Rights" Page 42
(International Edition Page 37)

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £875 per annum for each security.

Account Dealing Dates

Option *First Declara- Dealings	tions	Last Dealings	Account Day
Nov 10	Nov 20	Nov 21	Dec 1
Nov 24	Dec 4	Dec 5	Dec 15
Dec 8	Dec 18	Dec 19	Jan 5

* New time dealings may take place from 9.00 am two business days earlier.

Government bonds revive strongly but equities move narrowly in thin turnover

The UK securities markets traded cautiously yesterday as the Thanksgiving Day holiday in New York took the heart out of foreign exchange and international bond trading.

The stock market suffered another rash of technical problems. Barclays de Zoete Wedd, one of the leading marketmakers, had difficulties updating its price quotes in early trading. Later, Greenwell Montagu apologised for the problems with prices experienced on Tuesday evening, and it was disclosed that there was almost a re-run of the same problems yesterday, this time involving prices from Barclays de Zoete.

Government bonds rose sharply when a US trading house found itself squeezed between the closure of its home market and a shortage of stock in London. Yields on long-dated issues slipped below 11 per cent for the first time for a fortnight, but traders attached little significance to the day's trend.

The equity market continued to feel the backwash of the £300m shift in the portfolio of the Post Office Pension Fund. The plan, involving 300-400 stocks, will not be completed for some days and James Capel, the broking agent, is protecting itself by balancing its trades with the fund on a daily basis.

Oil stocks remained weak as investors took a nervous view of the OPEC meeting in early December when the Saudis will try to move crude prices higher while also increasing output.

After moving narrowly around overnight levels, market indices shaded downwards at mid-session. At the close, the FT-SE 100 index was 0.5 down at 1632.5, and the FT Ordinary Index 0.3 lower at 1286.00.

Among the day's features, British Petroleum gave ground, with turnover of 4m shares indicating the continuing nervousness in the sector. Also weaker were shares in Mercury International, the major financial securities house and leading marketmaker in London, and Lonrho, the overseas industrial conglomerate which has reportedly shown interest in US oil interests in Libya.

The Government bond market rose smartly in early trading when a major trader reinforced its efforts to buy long-dated issues. With the market trimmed down on the expectation of a quite session, prices were quickly forced upwards. Gains of one point and more were held until the market closed, although trading slackened off towards the end of the session. The FT Government securities index gained 0.69 to 81.77.

Standard Chartered down

Standard Chartered, strongly supported earlier in the week following news that Tan Sri Khoo Teck Puat had increased his stake in the company to 6.28 per cent, met with profit-taking and dropped to 812p before recovering late to close only 4 down on balance at 823p. The after-hours' recovery movement was accompanied by an announcement that Mr Puat had resigned as a director of Standard in the wake of the National Bank of Brunei scandal. Market sources later suggested that Mr Puat could now sell his stake in Standard, possibly to Mr Robert Holmes à Court's Bell Group which already owns a 10 per cent shareholding. Elsewhere, Mercury Securities, the UK merchant banking conglomerate made up of S. G. Warburg, stockbrokers Rowe and Pitman and Mullens and market makers, Akroyd and Smithers, fell 12 to 415p, after 413p, in reaction to the disappointing interim profits. Geode Durrant and Murray recovered from an initial dull level of 160p to finish 4 higher on balance at 170p following agreed bid terms from Impala Pacific, a company controlled by Ariadne Australia. London Scottish Finance, in which a large shareholding recently changed hands, revived with a gain of 5 at 72p, while First National Finance Corporation rose 10 to 194p after speculative buying.

Reflecting acute disappointment with the third-quarter profits standstill, Lloyds Broker Sedgwick declined 22 at 336p. Elsewhere in Insurances, General Accident rose 16 to 820p and GRE added 6 at 770p.

Fruit and vegetable suppliers Geest were the pick of the market newcomers. The shares, heavily oversubscribed at the offer price of 125p, opened with a premium in excess of the expected 25p at 151p and moved ahead to close at the day's best of 154p. SUMIT, the venture capital organisation, firmed to 141p compared with the placing price of 135p. Miss Sam, a fashion design company, fluctuated narrowly and settled at the placing price of 105p. USM-newcomer Glentree, an estate agents, more than doubled from the placing price of 16p and touched 40p prior to closing at 38p.

TSB met with revived institutional demand and hardened 1½ to 77½p.

Vaux remained in the limelight among Breweries, rising 18 more to 488p — an advance of 38 so far this week — as Associated British Foods joined a sizeable list of companies mentioned in recent weeks as possible suitors for the Sunderland-based concern; Vaux owns some 579 pubs, 162 managed off-licences and the 33-strong Swallow Hotel chain. Boddingtons were also firm, and closed another 5 up at 129p reflecting small buying in a market short of stock.

Interim profits some £14m above market estimates lifted BPB Industries to 473p before profit-taking brought the price back to 548p, still a gain of 23 on the day. Other Building Material issues took heart from the excellent figures with RMC rising 9 to 644p in a restricted market and Tarmac adding 5 to 431p, the latter also boosted by second thoughts about the latest US aggregates acquisition. Blue Circle hardened 3 to 648p and Rugby Portland Cement were a fraction dearer at 174p. Among Contracting and Construction issues, a squeeze on bear positions lifted AMEC 7 to 268p, while Costain, a dull market recently following a broker's profits downgrading, rallied a few pence to 492p. Hellical Bar attracted fresh support at 490p, up 10, while Raine Industries added a penny more to 77p. Burnett and Hallamshire contrasted with a fall of 1 at 13½p following the poor interim results and cautious statement.

Demand ahead of next Wednesday's interim results lifted Allied Colloids 10 to 235p.

Goldsmiths lower

Current bid favourite in the Stores sector, Goldsmiths, succumbed to profit-taking and lost all of the previous day's gain of 10 which had followed news that Orif-lame had built up a 14.2 per cent stake in the retail jewellers. Elsewhere, Etam came on offer at 188p, down 12, while Gabicci, also dipped 12 at 133p. Superdrug, however, moved up 8 at 433p. DAKS Simpson "A" jumped 20 to 375p. Leading retailers gave ground for want of support. Storehouse remained friendless at 285p, down 10, and Harris Queensway relinquished 4 at 218p.

Cable and Wireless were well supported in Electricals as investors anticipated a successful start to trading in Hong Kong and the share touched 329p before closing 5 better on balance at 325p, after a turnover of nearly 6m shares. STC still reflecting publicity given to a Savory Milln circular, rose 5 more at 168p, while Racal moved up a few pence at 174p. Elsewhere, United Leasing rose 6 to 180p ahead of next Tuesday's annual results.

With the exception of Vickers, which met occasional support and put on 10 to 383p, leading Engineers were rarely altered. Elsewhere, Crown House, a depressed market following the recent interim figures, staged a good rally and closed 10 higher at 183p. Reports of a broker's circular left Glynwed 13 to the good at 319p, but Siebert and Pitt remained a weak market and gave up 10 further to 50p. Babcock, in contrast, continued to attract buyers and put on 6 more to 175p. Matthew Hall hardened 2 to 142p following the figures for nine months and forecast of pre-tax profits of £17.5m for the full year.

A selectively firm Food sector showed Tate and Lyle 7 higher at 574p and Hillsdown Holdings 5 up at 216p, the latter reflecting publicity given to a broker's recommendation. Profit-taking in the wake of the good interim results left Freshbake 5 off at 120p.

Trusthouse Forte enjoyed another active session and touched 161p early on before closing unchanged at 179p. Elsewhere in the Hotel sector, Queens Moat Houses added 2¼ on talk of a broker's recommendation.

Pearson feature

Pearson moved ahead strongly to close 19 higher at 593p amid reports of buying from the Far East which gave rise to revived talk of a bid from Hutchison Whampoa; the latter already has a near-5 per cent stake in Pearson. Elsewhere in the miscellaneous Industrial sector, Pilkington advanced to 617p before closing 6 better at 613p on talk that the company is near to announcing its defence against the bid from BTR; Pilkington is scheduled to reveal interim figures on December 11. Excellent half-year results from BPB prompted interest in Steetley which rose 11 to 489p. Siebe continued to make progress and put on 13 more to 763p, but JS Pathology fell 7 more to 408p following the interim figures and acquisition news. Comment on its recent acquisition of Grosvenor Square Properties enlivened fresh interest in Associated British Ports, 5 to the good at 301p. Cookson were supported at 481p, up 8, while English China Clays, preliminary figures expected on December 16, declined to edge higher and closed a few pence better at 379p. Bid speculation left Hepworth Ceramic 4 dearer at 190p. Jardine Holdings improved 4 to 204p on the proposal for its Hong Kong Land subsidiary to spin off its Mandarin Oriental Hotel Group and contribute its remaining interest in Jardine to a new investment company. Movements among the leaders rarely exceeded a few pence either way.

Talk that a stakeholder was possibly increasing his holding tempted speculators into buying vehicle manufacturer Plaxtons, which spurted 5 more to a high for the year of 99p. Frank G. Gates were standing higher at 116p in front of the late bid of 120p cash, or loan stock alternative, from Giltrap Holdings which disclosed only yesterday that it held a stake of 7.63 per cent. Frank G. Gates subsequently raced up to 132p for a gain of 18, having risen since Monday morning from 100p. Lucas Industries were hardly affected by news that owing to heavy demand, the Convertible Bond issue has been increased from $50m to $61m.

Clondalkin found support after the announcement that 1.2m shares, nearly 10 per cent of the company, had been placed with Irish and UK institutions at 430p per share raising some £5.2m. Clondalkin ended 20 higher at 455p. William Collins were another firm spot and closed 15 up at 465p, while Independent gained 10 to 310p. Shandwick slipped 8 to 343p following a vendor placing of shares to fund two acquisitions in the UK and two in the US at a cost of £5.8m.

Among Properties, good support was forthcoming for Land Securities, 6 higher at 341p. MEPC, a dull market on Wednesday following the annual results, rallied 8¼ to 346½p. Bid speculation continued to boost British Land, which firmed 5 more to 194p and Great Portland Estates, finally 7 higher at 201p. Phoenix Property continued to attract buyers and added 2 more to 94p, while Bredero put on 5 to 140p.

Supported by a good financial press, Courtaulds retained most of the previous session's advance on the mid-term results to close at 324p. Turnover slackened, however, with total volume amounting to 2.7m shares compared with 9.6m Wednesday. Dawson International prospered after the interim statement, which contained an encouraging view of future prospects, and settled 12 dearer at 228p. Elsewhere, Vicker Carpets put on 5 further to 138p.

A mystery buyer continued to pick up stock of Argyle Trust, in which Nick Oppenheim has a 17 per cent stake, and the price rose to 85p before closing a net 4 higher at 83p. Other smaller-priced Financials in demand included Kakuzi, 5 better at 98p, and Kwahu, 3 dearer at 40p. M and G recovered 2 further at 268p, while National Home Loans gained 5 to 80p after yesterday's AGM. Several investment Trust Capital shares scored double-figure rises, including SPLIT at 480p.

Oils drift

The oil majors drifted easier in relatively quiet trading. British Petroleum lost 9 to 678p in the wake of traded option business, while Shell softened 6 to 940p. Britoil gave up 5 at 149p, while falls of 4 were seen in LASMO, 143p, and Ultramar, 133p. KC Gas came back 12 to 555p pending further bid developments, while profit-taking left Conroy Petroleum 25 lower at 560p. Against the trend, Burmah continued to respond to a broker's recommendation and added 4 more to 360p.

Tozer Kemsley, at 170p, held most of Wednesday's sharp rise following confirmation that Ron Brierley, soon to become chairman, would continue to use TKM as principal operating subsidiary, despite the listing shortly of his master company Brierley Investments. Among other Overseas Traders, Lonrho suffered the backlash of its reported political involvement with Libya and fell 6¼ to 237½p.

The closure of US markets for Thanksgiving Day proved to be an inhibiting factor on business in mining markets. South African Golds displayed a modestly firmer bias where altered, although gains owed more to currency influences than to genuine investment interest.

Among the heavyweights, Vaal Reefs hardened a half-point to £54¼. Kloof, dull recently following a reputed arson attack which subsequently put 20 per cent of the mine out of action, rallied 14 to 513p; brokers L. Messel, however, still rate the shares as a "sell." Smaller-priced producers Consolidated Modderfontein, 218p, and Grootvlei, 225p, up 15 and 16 respectively. The FT Gold Mines index, calculated in sterling, rose 2.5 to 302.2.

The absence of US participation also ensured a moribund showing by precious metal prices. Bullion closed $1.25 up on balance at $383.50 an ounce, having traded around that level for most of the session.

Slightly higher values also prevailed among South African Financials. De Beers rose a few pence to 529p, while the increased interim profits and dividend lifted Anglo American Corporation a fraction of £10¼. Dealers reported little excitement among London-registered Financials. Consolidated Gold Fields were particularly subdued, easing 4 to 667p. American Barrick Resources, reported to be stakebuilding in ConsGold, has announced terms for the acquisition of fellow Canadian gold explorer PanCont.

Australian mines were better than mixed as investors overnight Sydney and Melbourne markets concentrated their attentions on industrial stocks. Recently firm Golds paused for breath with Poseidon 6 cheaper at 267p. Similar losses were sustained by Sons of Gwalia, 331p, and Renison, 382p. In contrast, revived enthusiasm was evident for highly-speculative issues Cultus Resources, finally 7 up at 35p, and Aquarius, 3 to the good at 46p.

Dealers reported quieter conditions in Traded Options. Total contracts struck amounted to 25,737. TSB, however, enjoyed a lively session and attracted 4,878 calls, the April 90's and 100's contributing 1,066 and 1,831 trades respectively. Positions in Oils were also in demand and British Petroleum recorded 1,670 calls, while Lasmo accounted for 1,050 calls. The FT-SE 100 index attracted 1,001 calls and 1,319 puts.

FINANCIAL TIMES STOCK INDICES

	Nov. 27	Nov. 26	Nov. 25	Nov. 24	Nov. 21	year ago	1986 High	1986 Low	Since Compilation High	Since Compilation Low
Government Secs	81.77	81.08	81.11	81.32	81.00	83.95	94.51 (18/4)	80.39 (20/1)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	88.55	88.34	88.29	88.42	88.15	89.46	97.68 (7/7)	86.55 (23/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary ♥	1,286.0	1,286.3	1,270.4	1,282.6	1,274.2	1,133.0	1,425.9 (3/4)	1,094.3 (14/1)	1,425.9 (3/4/86)	49.4 (26/6/40)
Gold Mines	302.2	299.7	295.2	291.7	311.5	288.9	357.8 (12/9)	185.7 (18/7)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div. Yield	4.44	4.44	4.48	4.43	4.46	4.52				
Earnings Yld.%(full)	10.31	10.28	10.36	10.33	10.74	10.70				
P/E Ratio (net) (*)	11.84	11.88	11.81	11.91	11.83	11.49				
SEAQ Bargains (5pm)	28,496	25,721	25,600	27,792	34,762	—				
Equity Turnover (£m)	—	1259.76	983.16	954.89	1243.87	632.38				
Equity Bargains	—	38,101	37,536	36,762	43,848	25,324				
Shares Traded (ml)	—	427.0	370.3	422.7	500.3	287.2				

S.E. ACTIVITY

Indices	Nov. 26	Nov. 25
Gilt Edged Bargains	144.5	145.9
Equity Bargains	246.9	243.2
Equity Value	2545.3	1987.2
5-Day Average		
Gilt Edged Bargains	148.4	148.9
Equity Bargains	248.7	254.6
Equity Value	2085.7	2141.0

♥ Opening	10 a.m.	11 a.m.	Noon	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1290.0	1287.3	1284.5	1284.6	1285.5	1286.2	1286.1	1285.7

Day's High 1290.0. Day's Low 1283.9

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, SE Activity 1974 *Nil=11.37.

LONDON REPORT AND LATEST SHARE INDEX: TEL. 01-246 8026

NEW HIGHS AND LOWS FOR 1986

NEW HIGHS (125)

AMERICANS (4), BANKS (2), BUILDINGS (4), CHEMICALS (4), STORES (3), ELECTRICALS (3), ENGINEERING (5), FOODS (6), HOTELS (1), INDUSTRIALS (16), INSURANCE (1), LEISURE (4), MOTORS (5), PAPER (3), PROPERTY (5), TEXTILES (2), TRUSTS (45), OILS (3), OVERSEAS TRADERS (4), MINES (2)

NEW LOWS (11)

LOANS (1) Inv. In Ind. 11pc Uns.Ln 1988, AMERICANS (1) Cont. Illinois Corp., STORES (2) Exam Tip Top, ENGINEERING (1) Siebert and Pitt, INDUSTRIALS (2) High-Point Services, Huntleigh Tech., LEISURE (2) Media Tech. Int., Television Services, TRUSTS (2) London Trust, Aust. Merch.

Traditional Options

- First dealings Nov 17
- Last dealings Nov 28
- Last declaration Feb 19
- For settlement Mar 2

For rate indications see end of Unit Trust Service

Money was given for the call of Barkers, Dwek, West Brunswick Spring, Conroy, Caledonian, Engineering, Sears, Lister, Fobel, Ramal, London Securities, Weld, Johnson and Firth Brown, Wyma, S. W. Wood, Woodhouse and Rixson, Tricentrol, Dares Estates, British Land, Alsco, Emess, Audiotronic, Arax Energy, Pentland, Campari, Sound Diffusion and C. H. Bailey. No puts were reported. No doubles were transacted in Tricentrol and Conroy.

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Closing price	Day's change	Stock	Volume 000's	Closing price	Day's change
Asda-MFI	1,300	152	-1	ICI	1,000	1105	+4½
Allied Lyons	1,900	306	-7	Jaguar	800	517	+1
BAT	800	494	-1	Ladbroke	600	390	-1
BOC	1,500	339	+2	Land Securities	1,100	342	+7
BTR	2,600	280		Legal & Gen.	1,450	241	-1
Barclays	757	472		Lloyds Bank	410	432	+1
Bass	262	758	-2	Lonrho	1,700	227½	-6½
Beecham	426	416	-3	Marks & Spencer	3,300	189	+1
Blue Circle	412	648	+3	Midland Bank	599	561	-2
Boots	1,900	229	-1	NatWest Bank	375	500	+2
Brit. Aero	1,300	509	+3	P & O	465	504	-1
Britoil	5,000	149	-5	Plessey	5,300	221	+1
BP	4,000	678	-9	Prudential	747	817	+2
Brit. Telecom	6,000	195	+1	Racal	6,200	174	+3
Burton	2,300	272	+1	Reckitt & Col	622	943	-3
Cable & Wire	5,900	325	+5	Redland	500	426	+4
Cadbury Schweps	493	180	+1	RTZ	500	669	+1
Coats Viyella	2,100	260		Royal Insurance	1,700	818	+4
Com. Gold	231	667	-4	STC	4,000	168	+5
Courtaulds	2,700	324	-1	Sainsbury	700	538	-1
Dixons	3,100	377	-1	Sears	3,300	128	+1½
Fisons	335	594	-2	Sedgwick	5,700	336	-22
Gen. Accident	326	818	+16	Shell Trans	2,200	940	-6
Gen. Elect.	10,000	182½	-0½	Std Chartered	713	822	-4
Glaxo	2,600	913	+3	TSB	8,200	77½	+1½
Grand Met	2,000	450	+2	Tesco	325	379	-1
GUS "A"	237	£10¾	-¼	Thorn EMI	385	477	-1
Guardian R.E.	358	770	+6	Trafalgar House	785	297	+2
GKN	1,800	273	+1	Trusthse Forte	7,200	179	
Guinness	383	327	-3	Unilever	237	£20¾	+⅛
Hanson Trust	2,200	199¾	-½	United Biscuits	377	230	-1
Hawker Sidd.	1,400	437	+2				

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	85	0	19
Corporations, Dominion and Foreign Bonds	19	3	46
Industrials	476	391	659
Financial and Properties	185	104	287
Oils	20	43	43
Plantations	0	0	12
Mines	54	39	91
Others	81	61	57
Totals	927	642	1,231

FT-ACTUARIES INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS

Figures in parentheses show number of stocks per section

		Thursday November 27 1986 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (ACT at 29%)	Est. P/E Ratio (Net)	xd adj. 1986 to date	Wed Nov 26 Index No.	Tues Nov 25 Index No.	Mon Nov 24 Index No.	Year ago (approx.) Index No.
1	CAPITAL GOODS (210)	685.30	+0.6	8.97	3.75	14.16	16.53	681.02	672.94	676.55	577.22
2	Building Materials (27)	848.23	+1.2	8.60	3.48	14.66	17.54	837.86	827.34	833.55	650.62
3	Contracting, Construction (29)	1152.17	+0.7	7.96	4.02	17.29	32.70	1144.09	1138.02	1139.10	956.10
4	Electricals (12)	1735.73	+0.5	8.55	4.84	15.14	54.84	1727.18	1713.27	1716.15	1585.61
5	Electronics (38)	1504.95	+0.4	9.36	2.70	14.25	29.90	1498.28	1472.48	1490.17	1398.62
6	Mechanical Engineering (60)	380.07	+0.6	10.38	4.37	12.29	10.89	377.95	373.95	375.42	330.89
8	Metals and Metal Forming (7)	345.46	+1.4	9.58	4.07	13.09	9.53	340.84	339.61	340.06	247.23
9	Motors (16)	269.12	+0.3	10.25	3.90	11.32	6.70	268.40	263.62	261.90	201.18
10	Other Industrial Materials (21)	1209.40	+0.3	7.42	4.46	16.00	30.33	1205.89	1196.78	1201.23	1035.71
21	CONSUMER GROUP (186)	931.03	-0.2	8.28	3.39	15.16	20.14	932.67	921.95	930.35	783.60
22	Brewers and Distillers (22)	952.72	-0.8	9.40	3.43	13.04	15.70	960.86	949.21	958.78	815.67
25	Food Manufacturing (24)	727.88	+0.2	9.35	3.86	13.93	17.96	726.45	718.80	721.08	588.12
26	Food Retailing (16)	1830.82	-0.2	6.95	2.91	19.96	30.54	1834.89	1816.14	1843.09	1818.76
27	Health and Household Products (10)	1509.26	+0.5	6.31	2.52	18.47	26.19	1501.29	1482.27	1501.14	1205.45
29	Leisure (28)	967.99	—	7.62	4.22	17.41	25.69	967.94	955.30	958.00	774.03
32	Publishing & Printing (15)	2639.97	+0.8	7.56	4.29	17.02	76.10	2618.18	2579.95	2571.73	1894.17
33	Packaging and Paper (14)	474.57	—	7.33	3.51	17.67	11.74	474.29	471.27	472.25	388.46
34	Stores (38)	838.64	-0.7	7.55	3.18	17.99	17.37	844.59	836.02	843.18	815.74
35	Textiles (17)	547.43	+0.3	9.80	3.71	11.74	12.61	546.03	539.68	545.42	393.56
36	Tobaccos (2)	1272.62	-0.6	13.03	4.06	8.43	36.99	1280.13	1265.48	1284.60	795.06
41	OTHER GROUPS (87)	799.42	+0.5	8.51	4.02	15.12	17.65	795.59	786.60	795.68	737.24
42	Chemicals (20)	990.60	+0.5	8.84	4.37	13.76	29.37	985.50	975.26	978.75	735.47
44	Office Equipment (4)	255.18	+0.8	7.28	4.17	16.60	7.55	253.22	246.36	247.16	228.27
45	Shipping and Transport (12)	1550.56	+0.1	7.73	4.37	16.50	44.94	1548.87	1550.12	1549.03	1364.82
47	Telephone Networks (2)	798.35	+0.7	10.88	4.63	12.50	16.67	792.55	779.98	792.13	936.45
48	Miscellaneous (49)	1120.18	+0.3	6.25	3.07	20.11	17.26	1117.07	1107.02	1117.34	906.76
49	INDUSTRIAL GROUP (483)	842.33	+0.2	8.51	3.63	14.89	18.83	840.80	831.11	837.88	724.98
51	Oil & Gas (17)	1400.41	-1.1	11.66	6.39	10.56	62.83	1415.96	1420.74	1445.79	1145.18
59	500 SHARE INDEX (500)	889.55	—	8.88	3.96	14.28	22.31	889.29	880.62	888.80	761.17
61	FINANCIAL GROUP (119)	606.24	+0.2	—	4.69	—	18.25	605.21	603.74	605.92	527.65
62	Banks (8)	659.04	+0.1	19.11	5.55	7.18	23.94	658.61	658.19	661.35	534.14
65	Insurance (Life) (9)	851.72	+0.3	—	4.57	—	27.29	848.87	840.68	841.15	819.64
66	Insurance (Composite) (7)	447.31	+0.7	—	4.85	—	15.57	444.08	442.01	444.91	409.38
67	Insurance (Brokers) (9)	1209.10	-2.9	7.75	4.36	16.81	36.30	1244.74	1246.98	1254.11	1189.24
68	Merchant Banks (12)	355.07	-1.1	—	4.05	—	6.43	359.04	354.84	354.91	284.55
69	Property (50)	805.29	+1.2	5.75	3.57	22.59	17.24	795.47	797.69	798.94	685.98
70	Other Financial (24)	368.06	+0.4	8.94	4.34	13.65	9.43	366.59	366.79	368.35	304.53
71	Investment Trusts (98)	839.59	+0.3	—	2.72	—	15.44	837.46	835.75	836.48	642.72
81	Mining Finance (2)	331.39	-0.1	9.48	4.84	12.40	11.30	331.85	332.42	330.47	253.79
91	Overseas Traders (13)	757.56	-0.2	10.60	5.81	11.38	29.74	759.12	768.19	763.19	586.07
99	ALL-SHARE INDEX (732)	813.87	—	—	4.05	—	20.95	812.59	806.11	812.36	692.64

	Index No.	Day's Change	Day's High	Day's Low	Nov 26	Nov 25	Nov 24	Nov 21	Nov 20	Year ago
FT-SE 100 SHARE INDEX ‡	1632.5	-0.5	1637.8	1629.7	1633.0	1619.3	1636.5	1624.9	1618.7	1429.3

FIXED INTEREST

	PRICE INDICES	Thurs Nov 27	Day's change %	Wed Nov 26	xd adj. today	xd adj. 1986 to date
	British Government					
1	5 years	119.11	+0.20	118.87	—	10.37
2	5-15 years	129.09	+0.84	128.01	—	11.61
3	Over 15 years	134.05	+1.22	132.42	—	11.83
4	Irredeemables	145.85	+1.47	143.73	—	13.34
5	All stocks	127.68	+0.70	126.79	—	11.35
	Index-Linked					
6	5 years	115.05	-0.03	115.08	—	2.00
7	Over 5 years	110.66	+0.02	110.64	—	2.84
8	All stocks	111.34	+0.01	111.33	—	2.69
9	Debentures & Loans	109.17	+0.60	108.52	—	11.06
10	Preference	78.97	+0.15	78.85	—	6.17

	AVERAGE GROSS REDEMPTION YIELDS		Thurs Nov 27	Wed Nov 26	Year ago (approx.)
	British Government				
1	Low	5 years	9.89	9.97	9.95
2	Coupons	15 years	10.56	10.71	10.12
3		25 years	10.56	10.71	10.13
4	Medium	5 years	11.28	11.40	10.85
5	Coupons	15 years	10.92	11.07	10.45
6		25 years	10.55	10.70	10.07
7	High	5 years	11.36	11.50	10.90
8	Coupons	15 years	11.10	11.25	10.68
9		25 years	10.60	10.76	10.27
10	Irredeemables †		10.29	10.44	9.68
	Index-Linked				
11	Inflat'n rate 5%	5 yrs	3.68	3.65	0.0
12	Inflat'n rate 5%	Over 5 yrs	3.82	3.82	0.0
13	Inflat'n rate 10%	5 yrs	2.20	2.17	0.0
14	Inflat'n rate 10%	Over 5 yrs	3.66	3.66	0.0
15	Debs &	5 years	11.88	11.92	11.20
16	Loans	15 years	11.77	11.88	11.18
17		25 years	11.75	11.84	11.18
18	Preference †		11.79	11.80	11.78

‡Opening index 1637.5; 10 am 1634.7; 11 am 1630.5; Noon 1631.3; 1 pm 1631.8; 2 pm 1632.5; 3 pm 1632.5; 3.30 pm 1632.4; 4 pm 1631.7

† Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A new list of constituents is available from the Publishers, the Financial Times, Bracken House, Cannon Street, London EC4P 4BY, price 15p, by post 28p.

LONDON TRADED OPTIONS

November 27. Total Contracts 25,737. Calls 16,822. Puts 8,910. FT-SE Index, Calls 1,001 Puts 1,319. *Underlying security price.

LONDON RECENT ISSUES

EQUITIES

FIXED INTEREST STOCKS

"RIGHTS" OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price p	+ or -
3	Nil	9/1	5pm	2¼pm	Blacks Leisure 20p	[illegible]	
90	Nil	28/11	23pm	20pm	Cook (Wm.) 20p	[illegible]	
37	Nil	22/12	19pm	19pm	Jones (Edward) 10p	[illegible]	
30	Nil	22/12	7pm	1pm	Kellock Tst 1p	[illegible]	
36	Nil	23/1	19pm	3pm	London & Assoc. 10p	[illegible]	
30	Nil	5/12	5pm	3pm	LCA 20p	[illegible]	
280	Nil	23/1	20pm	20pm	Regalian Props	[illegible]	
93	Nil	9/1	37½pm	25pm	Storm Group	[illegible]	
250	Nil	15/1	20pm	21pm	Trns. Sec. Growth Inc.	[illegible]	
200	Nil	15/1	20pm	15pm	Weddington (L.)	[illegible]	

Renunciation date usually last day for dealing free of stamp duty. a Annualised dividend. b Figures based on prospectus estimate. d Dividend rate paid or payable on part of capital; cover based on dividend on full capital. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. F Forecast dividend cover on earnings updated by latest interim statement. H Dividend and Yield based on prospectus or other official estimates for 1987. L Estimated annualised dividend, cover and p/e based on latest annual earnings. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates for 1986-87. Forms Figures (indicated dividends); cover relates to previous dividend; p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. § Issued by tender. ‖ Offered holders of ordinary shares as a "rights." ¶ Introduction. ** Issued by way of capitalisation. †† Placing price. ¶¶ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ■ Allotment price. ◆ Unlisted securities market. ‡‡ Official London listing. ‡‡ Includes warrants addendum.

WORLD STOCK MARKETS

AUSTRIA

Nov. 27	Price Sch.	+ or —
Credit'nst'lt pp	2,210	−10
Goesser	3,340	−50
Interunfall	13,500	......
Jungbunzlauer	11,710	+10
Laenderbank	2,910	−10
Perlmooser	505	......
Steyr Daimler	158	......
Veitscher Mag	11,095	+20

BELGIUM/LUXEMBOURG

Nov. 27	Price Frs.	+ or —
B.B.L.	3,050	+10
Banq. Gen. Lux.	16,250	......
Banq. Int. A.Lux.	14,900	......
Bekaert	11,300	......
Ciment CBR	3,905	+6
Cockerill	139	−1
Delhaize	9,800	−45
EBES	4,850	+30
Electrobel	14,995	......
Fabrique Nat.	1,950	......
GB Inno BM	8,850	−50
GBL (Brux)	3,680	−40
Generale Bank	6,100	+110
Gevaert	6,250	+100
Hoboken	7,450	−150
Intercom	3,820	+10
Kredietbank	4,150	+30
Pan Hldgs.	10,650	−80
Petrofina	2,600	+80
Royale Belge	29,440	......
Soc. Gen. Belge.	6,300	−15
Sofina	19,000	+25
Solvay	8,440	+40
Stanwick Intl.	185	......
Tractebel	6,600	+200
UCB	8,800	+80
Wagons Lits	6,360	+30

DENMARK

Nov. 27	Price Knr %	+ or —
Baltica Skand.	646	+5
Cop Handelsb'k.	249	+6
D. Sukkerfab.	348	+5
Danske Bank	294	+9
East Asiatic	197	+3
Forenede Brygg.	1,000	−20
GNT Hld	618	+3
I.S.S.B	715	+16
Jyske Bank	475	+16
Novo Inds*	231	+2

GERMANY

Nov. 27	Price Dm.	+ or —
AEG	324.5	+2
Allianz Vers	2,338	−9
BASF	273	+2.5
Bayer	314	+7.6
Bayer-Hypo	604	+12
Bayer-Verein	541	−1.5
BHF Bank	540	+4
BMW	600	+4
Brown Boveri	296	−1.5
Commerzbank	321	−9
Cont'l Gummi	362	+3.9
Daimler-Benz	1,338	+8
Degussa	470	......
D'sche Babcock	211	−1.5
Deutsche Bank	842	+1
Dresdner Bank	419.5	−3.5
Feld-Muehle Nbl	300	+1
Henkel	493.5	+1.6
Hochtief	1,000	−10
Hoechst	265	+6.1
Hoesch Werke	193	−1.5
Holzmann (P)	622	......
Horten	262.5	+5.3
Hussel	636	+6
Karstadt	520	+12.5
Kaufhof	557	+0.5
KHD	171	−4
Kloeckner	69.3	+0.3
Linde	799.5	−4.5
Lufthansa	171	+4
MAN	237.5	−1
Mannesmann	182.4	−0.1
Mercedes Hld.	1,180	+9
Metallgesell	523	+4
Muench Rueck	2,320	+20
Nixdorf	714.5	+3.5
Porsche	1,012	......
Preussag	194	−4
Rhein West Elect	243	−0.5
Rosenthal	406	−6
Schering	667	+6.5
Siemens	740	+6
Thyssen	144.5	+0.2
Varta	390	+3
Veba	284.6	......
V.E.W.	158	+1.5
Verein-West	478	......
Volkswagen	444	+4.6

ITALY

Nov. 27	Price Lire	+ or —
Banco Com'le	23,950	−250
Bastogi-IRBS	714	+6

NORWAY

SPAIN

SWEDEN

Nov. 27	Price Kronor	+ or —
Pharmacia	210	+7
Saab Scania Free	730	......
Sandvik	137	+6
Skandia	138	......
Skan Enskilda	122	+1
SKF	354	−1
StoraKopparbrg.	250	......
Sven. Handlsbk	438	+5
Swedish Match	458	−2
Volvo B (Free)	373	+5

SWITZERLAND

Nov. 27	Price Frs.	+ or —
Adia Intl	9,975	+175
Alusuisse	560	−10
Bank Leu	4,090	......
Brown Boveri	1,790	−20
Ciba Geigy	3,495	+15
do. (Part Certs)	2,620	+20
Credit Suisse	3,790	+13
Elektrowatt	6,440	......
Fischer (Geo)	1,760	−16
Hoff.RochePtCts	115,750	......
Hoff-Roche 1/10	12,000	+100
Jacobs Suchard	8,650	−50
Jelmoli	4,295	+20
Landis & Gyr	1,870	−10
Nestle	9,313	+40
Oer-Buehrle	1,635	−16
Pirelli	460	−4
Sandoz (Br)	2,900	−26
Sandoz (Pt Cts)	1,620	−5
Schindler (Pt Cts)	660	−5
Sika	1,600	−50
Surveillance A.	9,660	+176
Swissair	1,320	−16
Swiss Bank	570	+2
Swiss Reinsce	12,100	......
Swiss Volksbk	2,720	+20
Union Bank	6,050	+28
Winterthur Inh	7,450	−28
Zurich Ins	8,500	......

AUSTRALIA

Nov. 27	Price Aust. $	+ or —
ACI Intl	4.06	+0.05
Adelaide Steams	12.2	......
Amcor	4.05	+0.07
ANZ Group	6.6	......
Ampol Pet	2.72	......
Ashton	2.25	−0.05
Aust. Guarantee	3.2	......
Aust. Nat. Inds	2.22	−0.03
Bell Group	9.16	−0.04
Bell Res	4.05	+0.05
Bond Corp Hldgs	2.98	+0.05
Boral	4.4	+0.2
Bougainville	2.98	+0.03
Brambles Inds	7.6	+0.10
Bridge Oil	0.56	......
B. H. Prop	8.3	+0.14
Burns Philp	8.9	+0.4
CRA	6.98	+0.4
CSR	2.88	−0.02
Chase Corp	6	......
Claremont Pet	1.00	+0.01
Coles-Myer	5.84	+0.54
Comalco 'A'	2.4	......
Consolidated Pet	0.36	+0.01
Costain Aust	2.85	+0.05
Elders IXL	4.09	+0.02
Energy Res	1.68	−0.02

AUSTRALIA (continued)

Nov. 27	Price Aust. $	+ or —
Gen. Prop. Trust	2.62	......
Hardie (James)	6.65	−0.05
Hartogen Energy	2.4	+0.1
Herald W'yTimes	3.2	+0.1
ICI Aust	9.86	......
Industrial Equity	5.93xr	−0.10
Jimberlana F.P.	0.33	−0.01
Kia Ora Gold	0.56	+0.02
Kidston Gold	7.6	......
Land Lease	9.8	+0.1
MIM	2.35	+0.07
Mayne Nickless	3.5	+0.05
Nat. Aust. Bank	3	+0.02
News	16.7	+0.5
Nicholas Kiwi	3.80	......
Noranda (P.Pjdy)	1.7	+0.02
North Broken Hill	2.67	−0.01
Oakbridge	0.33	......
Pacific Dunlop	3.95	+0.15
Pancontinental	9.48	−0.12
Pioneer Conc	9.65	−0.02
Placer Pacific	9.48	−0.07
Poseidon	5.7	−0.1
Queensland Coal	1.63	−0.01
Reckitt & Colman	6.26	+0.11
Santos	3.95	+0.05
Smith Howard	4.36	+0.05
Thos. Natwide	6.76	+0.07
Tooth	8	−0.1
Vamgas	2.8	......
Western Mining	4.75	......
Westpac Bank	4.66	−0.02
Woodside Petrol	1.45	+0.05
Woolworths	3.9	......
Wormald Intl	4	−0.1

HONG KONG

Nov. 27	Price H.K.$	+ or —
Bank East Asia	91.7	−0.1
Cathay Pacific	6.4	−0.05
Cheung Kong	35.75	−0.50
China Light	20.6	−0.3
Evergo	0.58	+0.05
Hang Seng Bank	37.75	−0.25
Henderson Land	4.17	−0.03
HK China Gas	18.7	−0.2
HK Electric	10.4	−0.1
HK Kowloon Wh.	8.20	......
HK Land	6.65	......
HK Shanghai Bk.	8.2	−0.1
HK Telephone	14.7	−0.2
Hutchison Wpa.	42.75	+1.05
Jardine Math.	22.2	......
New World Dev.	9.3	+0.1
SHK Props	17.8	−0.2
Shell Elect.	0.76	+0.02
Swire Pac A.	17.4	−0.4
TV—B	9.85	+0.05
Winsor Inds	9.7	−0.2
World Int. Hldgs.	3.36	+0.05

JAPAN

Nov. 27	Price Yen	+ or —
Ajinomoto	1,860	+20
All Nippon Air	920	+1
Alps Electric	2,090	−10
Asahi Chem	800	+8
Asahi Glass	1,330	......
Bank Tokyo	870	+10
Bridgestone	715	+4
Brother Inds	628	+12
Canon	1,060	+10
Casio Comp	1,430	......
Chugai Pharm	1,370	+60
Daiei	1,560	+20
Dai-Ichi Kan. Bk.	1,700	......
Dai Nippon Ink	549	+44
Dai Nippon Ptg	1,810	+20
Daiwa House	1,850	......
Daiwa Sec	1,630	+50
Eisai	1,880	+40
Fanuc	6,630	−40
Fuji Bank	1,700	−10
Fuji Film	3,260	+20
Fujisawa	1,690	−10
Fujitsu	1,060	−20
F'urukawa Elect.	550	+22
Green Cross	2,640	+40
Heiwa Real Est.	999	+8
Hitachi	1000	+17
Hitachi Credit	1,740	+90
Honda	1,240	+10
Indl. Bk. Japan	2,070	+110
Ishikawajima Hr.	390	−2
Isuzu Motor	537	......
Itoh (C)	739	−5
Ito Yokado	4,800	+100
Jal	2,300	......
Jusco	1,500	+30
Kajima	1,140	+10
Kao Corp	1,910	......
Kawasaki Steel	137	......
Kirin	1,500	+20
Ko Steelbe	157	......
Komatsu	505	+10
Konishiroku	640	+12
Kubota	360	−1
Kumagai	1,090	+30
Kyocera	4,350	+100
Marubeni	459	−6
Marui	2,650	+70
Mazda Motors	376	+1
Meiji Seika	797	−1
MIE	1,890	+20
M'bishi Bank	1,590	......
M'bishi Chem	743	+5
M'bishi Corp	877	−3
M'bishi Elect	420	+5
M'bishi Estate	2,190	+30

JAPAN (continued)

Nov. 27	Price Yen	+ or —
MHI	425	+3
Mitsui Bank	1,150	−10
Mitsui Co	640	......
Mitsui Estate	1,600	+40
Mitsui Toatsu	335	......
Mitsukoshi	1,190	+20
NGK Insulators	933	+15
Nikko Sec	1,430	+60
Nippon Denso	1,620	......
Nippon Elect	2,040	+40
Nippon Express	1,100	+30
Nippon Gakki	1,560	−10
Nippon Kogaku	890	−3
Nippon Kokan	212	−1
Nippon Oil	1,190	......
Nippon Seiko	314	+15
Nippon Shimpan	1,170	+50
Nippon Steel	136	−1
Nippon Suisan	469	+7
Nippon Yusen	413	+6
Nissan Motor	549	−3
Nisshin Flour	770	+1
Nomura	2,630	+10
Olympus	1,110	+10
Onoda Cement	637	+6
Orient Finance	1,170	+110
Orient Leasing	3,650	+30
Pioneer	2,410	+60
Ricoh	997	−13
Sankyo	1,470	+30
Sanwa Bank	1,410	+50
Sanyo Elect	494	+2
Sapporo	1,170	......
Sekisui House	1,560	......
Seven Eleven	6,900	+610
Sharp	990	−3
Shimizu Constn	695	......
Shionogi	1,480	......
Shiseido	1,950	+40
Showa Denko	331	+6
Sony	3,570	+20
S'tomo Bank	2,080	+50
S'tomo Chem	347	......
S'tomo Corp	890	−3
S'tomo Elect	1,750	+50
S'tomo Metal	167	−6
Taisei Corp	810	−10
Taisho Marine	920	+23
Taiyo Kobe Bank	761	+1
Takeda	2,330	+50
TDK	4,110	−30
Teijin	692	+37
Toa Nenryo	1,620	−20
Tokai Bank	1,090	......
Tokio Marine	1,690	+20
Tokyo Elect Pwr	7,420	+10
Tokyo Gas	950	+3
Tokyu Corp	1,090	......
Toppan Print	1,590	+50
Toray	586	+6
Toshiba Elect	611	−4
Toyo Seikan	2,190	−10
Toyota Motor	1,990	+50
UBE Inds	980	+3
Victor	2,250	+90
Yamaha	649	−29
Yamaichi Sec	1,400	+50
Y'manouchi Phm	3,290	......
Yamazaki	1,660	+30
Yasuda Fire	880	+12

SINGAPORE

Nov. 27	Price $	+ or —
Boustead	1.3	−0.02
Gold Stora	6.56	−0.06
DBS	8.8	−0.1
Genting	5.7	−0.05
Haw Par Bros	2.89	−0.08
Hong Leong Fin.	2.82	−0.01
Inchcape Bhd	2.7	−0.06
Keppel Corp	2.62	−0.06
Malay Banking	4.82	−0.14
Malay Utd. Ind.	1.36	+0.01
Multi Purpose	0.55	−0.01
OCBC	9.0	+0.1
OUB	3.5	−0.04
Public Bank	1.34	−0.05
Sime Darby	1.81	+0.01
Singapore Air	9.16	+0.05
Singapore Press	7.96	+0.15
Straits Trading	3.64	−0.02
Tat Lee Bank	2.94	−0.05
UOB	4.66	−0.02

SOUTH AFRICA

Nov. 27	Price Rand	+ or —
Abercom	2.7	......
AE & CI	14.5	......
Allied Tech	85	......
Anglo Am. Coal	38.5	+0.25
Anglo Am. Corp	67.5	−0.5
Anglo Am. Gold	336	+3
Barclays Bank	21.5	......
Barlow Rand	19.15	......
Buffel	86	+3.5
CNA Gallo	2.85	−0.15
Currie Finance	4.5	−0.25
De Beers	35.25	+0.25
Driefontein	71.5	+0.5
F. S. Cons	38.6	......
Gold Fields S.A.	58.5	......
Highveld Steel	5.1	......
Malcor	13.5	+0.25
Nedbank	6.8	−0.05
OK Bazaars	13.8	......
Rembrandt	91	+1
Rust Plat	46	+0.5
Safren	17.25	......
Sage Holdings	9.8	......
SA Brews	18	−0.25
Smith (CG)	29	......
Tongaat Hulettts	7.9	......

CANADA

TORONTO
Closing prices November 27

MONTREAL
Closing prices November 27

Indices

NEW YORK

NEW YORK ACTIVE STOCKS

Wednesday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Xerox	2,674,800	61	+ 1⅛	Lockheed	1,757,400	55⅝	+ 2
Texas Util.	2,488,500	33¾	− ½	Beverly Ent.	1,758,500	18⅝	+ ⅞

TORONTO	Nov 27	Nov 26	Nov 25	Nov 24	1986 High	1986 Low
Metals & Minls	2,094.9	2,082.4	2,095.5	2,105.8	2,442.85 (21/3)	1,817.4 (5/8)
Composite	3,131.3	3,105.1	3,105.9	3,123.3	3,129.11 (18/4)	2,754.9 (17/2)
MONTREAL Portfolio	1,540.86	1,532.74	1,533.7	1,549.8	1,673.33 (15/4)	1,385.6 (22/1)

* Indicates pre-close figure

** Saturday November 22: Japan Nikkei 17,648.2. TSE 1,448.87.

Base value of all Indices are 100 except Brussels SE—1,000, JSE Gold—255.7, JSE Industrial—264.3, and Australia. All Ordinary and Metals—500. NYSE All Common—50; Standard and Poors—10; and Toronto Composite and Metals—1,000. Toronto Indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities. 40 Financials and 20 Transports. c Closed. u Unavailable.

LONDON
Chief price changes
(in pence unless otherwise indicated)

RISES

Tr 11¾% '03-07	£106⁹⁄₁₆	+ 1⅛
Tr 13½% '04-08	£120¼	+ 1⁷⁄₁₆
Amec	289	+ 7
Allied Coll	235	+10
Argyle Trust	83	+ 4
BPB Inds	548	+25
Cable & Wire	325	+ 5
Clondalkin	455	+20
Cookson	481	+ 8
Crown House	183	+10
Cultus Res	35	+ 7
Dawson Intl	228	+12
Gates (F G)	130	+16
Glynwed	318	+12
Great Port Ests	201	+ 7
Hillsdown Hldgs	217	+ 8
Pearson	593	+19
Plaxton's	99	+ 5
STC	168	+ 5
Steetley	488	+10
United Leas	180	+ 8
Vaux	448	+18
Victoria Carpets	138	+ 5

FALLS

BP	678	− 9
Britoil	149	− 5
Goldsmiths Group	248	−10
Lonrho	227½	− 8½
Mercury Secs	415	−13
Sedgwick	336	−22
Shandwick	343	− 8

N. AMERICAN QUARTERLY RESULTS

CAMPEAU Property

Nine months	1986 C$	1985 C$
Revenue	202.4m	26.8m
Op. net profits	30.4m	26.9m

CONSUMERS GAS Electric, gas utility

Year	1986 $	1985 $
Revenue	1.7bn	1.71bn
Net profits	92.5m	95.6m

LEAR PETROLEUM Oil, gas

Third quarter	1986 $	1985 $
Revenue	80.85m	114.07m
Net profits	16.93m	11.22m

PUBLIC SERVICE ENTERPRISE Electric utility

Year	1986 $	1985 $
Revenue	4.51bn	4.31bn
Net profits	593.8m	482m

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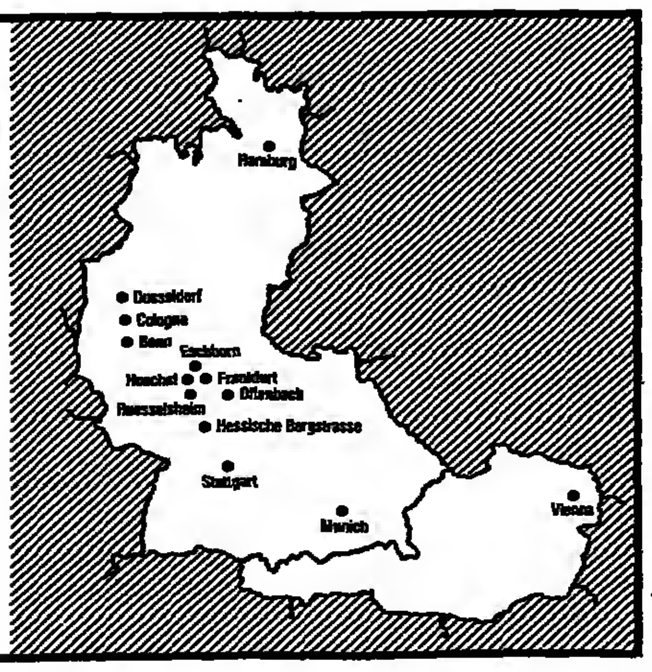


FINANCIAL TIMES
WORLD STOCK MARKETS

EUROPE

US holiday slows pace of activity

THE CLOSURE of markets on Wall Street for Thanksgiving Day slowed the pace of activity on the European bourses yesterday.

Frankfurt closed generally higher helped by the firmer overnight value of the dollar. Good third-quarter results from major chemical concerns also helped the market. The Commerzbank index, set at mid-session, closed 14.9 higher at 2,072.3.

Among the chemicals Bayer scored a DM 7.50 rise to DM 314, and Hoechst was DM 5.10 up at DM 263. BASF, despite reporting lower world profits, rose DM 2.30 to DM 273.

Banks lost some of their earlier strength on news of flattening profits growth. In the sector Dresdner fell DM 3.50 to DM 418.50 and Commerzbank DM 2 to DM 321. However, Deutsche managed a DM 1 rise to DM 842 towards the close.

The car sector followed the general firmer trend, with VW up DM 4.50 to DM 444.00, Daimler DM 8 to DM 1,338 and BMW DM 4 to DM 600.

Elsewhere, electricals were higher, including Siemens, up DM 3 to DM 740.00, computer maker Nixdorf DM 3.50 to DM 714.50 and AEG DM 2.00 to DM 324.50.

Metal group Degussa was unchanged at DM 470 on news that its worldwide turnover was lower. Steel group Thyssen managed a 20 pfg rise to DM 144.50.

Mixed retailers saw Karstadt up DM 12.50 to DM 520.00 but Kaufhof down DM 4.50 to DM 552.00.

The firmer overnight close on US credit markets lifted government bonds in active trading. Long maturities added up to 30 basis points while elsewhere gains were about 20 basis points. Today's holiday in the US kept foreign buyers on the sidelines.

The Bundesbank, in its daily market balancing operation, sold DM 142.1m worth of paper after buying DM 21.0m on Wednesday.

Amsterdam suffered from Wall Street's holiday although the firmer dollar encouraged some investors, and prices were generally mixed.

Internationals were mostly mixed along with the trend. Unilever added 70 cents to Fl 505.70, Philips was steady at Fl 46.80 and Royal Dutch eased 20 cents to Fl 206.30.

Akzo, the chemicals and fibres group, attracted institutional buying and closed Fl 1.50 higher at Fl 162.10, but insurer Aegon was 20 cents down at Fl 91.00. Also in the insurance sector Amev added Fl 1.4 to Fl 76.20.

Brussels closed marginally higher amid confidence boosted by hopes that the Government has consolidated its position.

Market leader Petrofina ended the session BFr 80 higher at BFr 9,500. Wagons-Lits, which repeated earlier forecasts of sharply higher year-end profits, rose BFr 30 to BFr 5,380.

Falls were seen among holding companies including GBL, which fell BFr 40 to BFr 3,680, while Générale Bank rose BFr 110 to BFr 6,100.

Zurich finished narrowly mixed as turnover dipped due to the absence of North American buyers.

Hoffmann-La Roche "Baby" showed the best gain in the mixed industrial sector with a SFr 100 rise to SFr 12,000.

Ciba-Geigy edged SFr 15 higher to SFr 3,495 although Sandoz participation certificates moved SFr 5 lower to SFr 1,620.

Consumer stocks posted good gains, with Mövenpick ahead SFr 100 to SFr 6,900 and Merkur SFr 200 up at SFr 4,700.

Milan was mixed in moderate trading as technical factors linked with today's settlement day and a strike of banking personnel depressed sentiment.

Fiat was actively traded up L160 at L14,030 while Olivetti gained L100 to L13,850. Montedison at L15 was L2,995 lower.

Stockholm edged higher in calm trading ahead of good trade figures published after the close.

Sandvik firmed SKr 6 to SKr 157 on Wednesday's better-than-expected interim results. Fermenta continued to lose ground – down SKr 5 to SKr 101 – on further concern over the fate of the group.

Madrid was led higher by construction and chemicals. Utilities lost ground.

LONDON

THE CLOSURE of US markets took the heart out of trading in London yesterday as technical faults returned to plague the stock market.

By the close the FT-SE 100 was 0.5 lower at 1,632.5, and the FT Ordinary index slipped 0.3 to 1,286.0.

Gilts rose sharply when a US trading house was squeezed between the closure of its home market and a shortage of stock in London. Yields on long-dated issues slipped below 11 per cent for the first time in a fortnight.

Chief price changes, Page 45; details, Page 44; Share Information service, Pages 42–43

HONG KONG

PROFIT-TAKING halted Hong Kong's rise to new peaks, and the Hang Seng index slipped 23.38 to 2,354.33.

Much of the selling was by foreign institutions, which were expecting technical corrections after the sharp upturn earlier this week.

Jardine Matheson, ahead of its announcement of a major restructuring involving its affiliate Hongkong Land, closed unchanged at HK$22.20 in active trading. Hongkong Land, which is selling its hotel unit, was also unchanged at HK$6.35. Other properties were generally lower including SHK, down 20 cents at HK$17.80, and New World Developments, 10 cents lower at HK$9.60.

Elsewhere, China Light fell 30 cents to HK$20.60 and Hongkong Telephone 20 cents to HK$14.70.

AUSTRALIA

OVERNIGHT gains on Wall Street and stronger industrials helped to lift Sydney despite some profit-taking among golds on the lower bullion price.

The All Ordinaries index closed 7.6 higher at 1,370.8 although the gold index lost 4.2 to 1,568.8.

Actives included Burns Philp, which rose 30 cents to A$8.90, and Amcor, which firmed 10 cents to A$4.05.

A mixed banking sector saw Westpac fall 2 cents to A$4.66, ANZ unchanged at A$5.60 and National Australia up 2 cents at A$5.00.

Elsewhere, mining shares were generally higher, including CRA, which rose 12 cents to A$6.98, and MIM, which firmed 7 cents to A$2.35. BHP closed 14 cents up at A$8.50.

SINGAPORE

GROWING UNEASE over the alleged mismanagement of funds in the National Bank of Brunei prompted a retreat in Singapore and trimmed the Straits Times industrial index by 9.46 to 873.20.

OCBC, most active with 994,000 shares traded, added 10 cents to S$9, and Sealion, also busy, slipped 2 cents to 71½ cents while Genting closed 5 cents down at S$5.70.

Other features included a 20-cent drop for Metro at S$5.35, a 5-cent advance for SIA at S$9.15 and a 20-cent decline for Singapore Land at S$4.90.

SOUTH AFRICA

GOLDS extended their gains of Wednesday in Johannesburg as the bullion price continued to firm.

Buffelsfontein put on a healthy R3.50 to R86, and Driefontein closed 50 cents higher at R71.50. Free State Consolidated was unchanged at R52.50.

Mining financial Anglo American lost 50 cents to R67.50 while among other minings diamond share De Beers added 25 cents to R35.25.

Industrials closed generally mixed.

CANADA

WITHOUT any lead from Wall Street, Toronto traded little changed from Wednesday.

Among actives Canadian Imperial Bank of Commerce traded unchanged at C$19, and Toronto Dominion Bank was also steady at C$22¾.

Industrials in Montreal showed marginal gains, but other sectors were down.

TOKYO

Hope of year end rally lifts prices

BUOYED by the hope of a year-end rally, share prices staged a broad advance in Tokyo yesterday, *writes Shigeo Nishiwaki of Jiji Press.*

The Nikkei average gained 155.75 *from the previous day* to 17,883.66. Volume totalled 519m shares compared with Wednesday's 639m. Advances outpaced declines by 560 to 293, with 131 issues unchanged.

Institutional investors, who sold electric power and gas issues the previous day, placed buy orders for NEC and other blue chips.

Another encouraging factor was Wall Street's overnight gain with the Dow Jones industrial average coming close to its all-time high.

Asset-heavy stocks were sought, accounting for seven out of the 10 most active stocks.

Japan Steel Works topped the active list with 32.01m shares but closed Y16 lower at Y388 after an early rise of Y11. Ebara rose Y13 to Y873 at one stage but came under selling pressure later to end Y21 lower at Y839.

Dainippon Ink and Chemicals, the second-busiest issue with 26.18m shares changing hands, jumped Y44 to Y549. Demand was fuelled by company plans to redevelop a factory site and investor expectations that the recent purchase of the US graphic arts materials group of Sun Chemical would help expand Dainippon Ink's earnings position.

Blue chips were bought, mirroring the yen's weakness against the dollar. Matsushita Electric Industrial, also active, rose Y20 to Y1,890. NEC gained Y40 to Y2,040 and Hitachi Y17 to Y1,000.

Among issues expected to benefit from consumer expansion, Marui rose Y70 to Y2,850 and Hagasakiya Y50 to Y1,110.

Daiwa House finished unchanged at Y1,850, *after gaining Y30 briefly.*

Pharmaceuticals firmed, with Takeda Chemical adding Y50 to Y2,330 and Sankyo Y30 to Y1,470.

Bond prices rose sharply, bolstered by large buy orders placed by city banks *and trust banks.*

The yield on the 5.1 per cent government bond, maturing in July 1996, declined to 5.480 per cent from the previous day's 5.520 per cent. The 5.1 per cent bond is considered a possible candidate to replace the 6.2 per cent bond as the benchmark issue.

The 6.2 per cent bond, falling due in June 1995, lost popularity.

INITIAL PUBLIC OFFERINGS

Investors lose appetite for new issue diet

INVESTORS remain rather cool to two large share issues made on Wall Street last Friday, *writes Roderick Oram in New York.*

The underwriters found both hard to price even though in the longer term, one, Coca-Cola Enterprises, may offer more investment potential than the other, Continental Illinois.

Coca-Cola sold a 49 per cent stake in *its newly formed* bottling subsidiary for $16½ a share to raise $1.18bn. It was the second-largest initial public offering ever in the US after the $1.2bn issue in May by Henley Group, a diversified industrial company. Coca-Cola Enterprises' share price has subsequently slipped to $15⅝ on heavy volume. On the first day alone, 18m of the 71m shares issued through a syndicate led by Allen & Co changed hands.

Some 50m Continental Illinois shares were offered at $5¼. The price was unchanged in subsequent trading but only because of support from the underwriting syndicate led by Goldman Sachs, according to market participants. They believe that perhaps as much as 25 per cent of the issue remains in the underwriters' hands.

The underwriters' problems were compounded by the general deterioration of the initial public offering market. *Investors' appetite for new issues* has been dulled by the surfeit of shares so far this year – $16.8bn worth in the first 11 months of 1986 against $8.6bn all of last year, according to figures from IDD Information Services.

Long gone was the heady atmosphere of May when Henley Group's issue was pushed up from $200m to $1.2bn by strong demand from investors. They were apparently expressing confidence in Mr Michael Dingman, Henley's chief executive, to turn around the motley collection of 38 businesses spun off by Allied Signal. The businesses, which lost $26.8m on sales of $3.2bn in 1985, are known as "Dingman's Dogs."

Analysts feel Coca-Cola Enterprises has a lot going for it in the longer term but not for a while. Sales of $2.92bn last year put it in the *top 100 industrial companies* in the US, but net profits were only $527,000 because of a heavy debt burden and the lack, for now, of fruits from rationalisation and economies of scale.

Coca-Cola assembled the company from bottling operations it already owned plus those it acquired when it bought JTL of Tennessee and the Los Angeles-based bottling operations of Beatrice Companies. About $2.94bn of debt was incurred in the process although proceeds *from* the share issue will reduce this to about $1.75bn.

Coca-Cola bought the bottlers partly because it did not want them falling into unfriendly hands and partly because of the benefits to it from diversifying into bottling. A large operation such as Enterprises should be able to reap economies of scale in production, marketing and distribution, particularly as the number of products and the sizes in which they are offered continue to proliferate.

Overall Coca-Cola has 39 per cent of the US market worth $24bn and growing in volume terms at 4 per cent a year. Enterprises' volume is growing at 7 per cent annually, confirming the general theory behind its establishment.

Enterprises' net profits could leap to about $50m, or about 35 cents a share, in 1987 as rationalisation and lower debt costs pay off. But this would still work out at a price-earnings ratio of about 50 based on current share prices. With the p/e ratio an unrealistic way to price the shares, Enterprises' underwriters pointed instead to its substantial operating cash.

Investors, particularly the institutions, did not buy this approach, and the target price had to be lowered to between $18 and $21 from $21 and $24 before being finally offered at $16½.

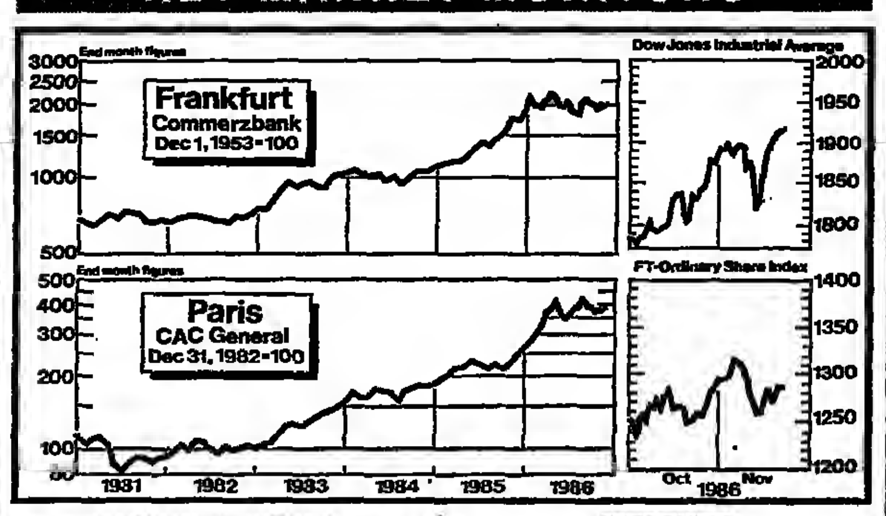
The outlook, unfortunately, is not so good for the Continental Illinois issue which was the largest equity offering ever by a bank. The offer price of $5¼ indicated a p/e of around 17 when high-quality banks such as J.P. Morgan are trading at about eight times earnings. A price of about $4 to $4½ would have been more appropriate, analysts suggest.

Continental has recovered significantly since 1984 when a huge portfolio of bad energy loans prompted a rescue by the Federal Deposit Insurance Corporation with an injection of $4.5bn. Its assets have shrunk by about a third from a peak of $47bn in 1981, but the cuts in its organisation have been far less swingeing. The high overheads raise questions about the group's ability to boost its profits substantially even though *asset quality has improved markedly.*

Another factor overhanging the market is the issue of even more shares in the medium term. The FDIC, which ended up with 80 per cent of the group's shares through the rescue, is determined to "reprivatise" it. The agency still has some 110m shares to sell.

On the positive side, though, is a revamped management team which could use its skills and the strong balance sheet to complete the bank holding company's rehabilitation.

KEY MARKET MONITORS



STOCK MARKET INDICES

NEW YORK	Nov 27	Previous	Year ago
DJ Industrials	c	1,916.76	1,475.69
DJ Transport	c	844.75	683.17
DJ Utilities	c	212.29	164.44
S&P Composite	c	248.77	202.54
LONDON			
FT Ord	1,286.0	1,286.3	1,133.0
FT-SE 100	1,632.5	1,633.0	1,438.0
FT-A All-share	813.07	812.9	692.64
FT-A 500	889.55	889.29	761.17
FT Gold mines	302.2	299.7	288.9
FT-A Long gilt	10.60	10.76	10.28
TOKYO			
Nikkei	17,883.66	17,747.50	12,777.8
Tokyo SE	1,473.20	1,457.83	1,009.19
AUSTRALIA			
All Ord.	1,371.1	1,363.6	994.6
Metals & Mins.	666.7	663.2	497.1
AUSTRIA			
Credit Aktien	233.51	233.70	236.58
BELGIUM			
Belgian SE	4,021.92	4,006.01	2,947.39
CANADA			
Toronto			
Metals & Minls	2,084.9	2,081.0	1,918 0
Composite	3,031.9	3,024.70	2,830.9
Montreal			
Portfolio	1,540.00	1,535.45	137.29
DENMARK			
SE	–	189.28	224.18
FRANCE			
CAC Gen	394.40	392.90	248.7
Ind. Tendance	–	154.50	92.2
WEST GERMANY			
FAZ-Aktien	686.46	683.09	587.85
Commerzbank	2,072.30	2,065.50	1,740.0
HONG KONG			
Hang Seng	2,354.33	2,361.12	1,706.38
ITALY			
Banca Comm.	–	718.35	432.38
NETHERLANDS			
ANP-CBS Gen	284.20	284.80	238.1
ANP-CBS Ind	284.40	285.00	212.9
NORWAY			
Oslo SE	377.82	382.27	398.54
SINGAPORE			
Straits Times	–	888.26	697.31
SOUTH AFRICA			
JSE Golds	—	1,825.0	1,222.5
JSE Industrials	—	1,384.0	1,044.8
SPAIN			
Madrid SE	191.32	185.68	99.25
SWEDEN			
J & P	2,521.70	2,500.24	1,610.70
SWITZERLAND			
Swiss Bank Ind	585.50	586.20	535.9
WORLD	Nov 26	Previous	Year ago
MS Capital Int'l	346.6	345.6	245.7

COMMODITIES

(London)	Nov 27	Prev
Silver (spot fixing)	368.95p	369.50p
Copper (cash)	£921.00	£916.75
Coffee (Jan)	£1,952.50	£2,102.00
Oil (Brent blend)	$14.50	$14.475

GOLD (per ounce)

	Nov 27	Prev
London	$383.50	$382.25
Zürich	$383.60	$383.75
Paris (fixing)	$381.69	$381.02
Luxembourg	$382.70	$384.50
New York (Dec)	–	$382.30

CURRENCIES

	US DOLLAR		STERLING	
(London)	Nov 27	Previous	Nov 27	Previous
$	–	–	1.4290	1.4320
DM	1.9890	1.9895	2.8425	2.8475
Yen	162.70	162.95	232.5	233.25
FFr	6.5175	6.52	9.3125	9.3375
SFr	1.6600	1.6585	2.3725	2.375
Guilder	2.2490	2.2490	3.215	3.22
Lira	1,388	1,378.375	1,970.5	1,974
BFr	41.35	41.35	59.10	59.20
C$	1.3845	1.3855	1.9785	1.9820

INTEREST RATES

	Nov 27	Prev
Euro-currencies (3-month offered rate)		
£	11⅛	11⅛
SFr	4	4
DM	4 13/16	4 13/16
FFr	8¼	8 5/16
FT London Interbank fixing (offered rate)		
3-month US$	6⅛	6⅛
6-month US$	6 3/16	6⅛
US Fed Funds	c *	5⅞
US 3-month CDs	5.75*	5.975
US 3-month T-bills	5.37*	5.54

US BONDS

Treasury

		November 27* Price	Yield	Prev Price	Yield
6⅝	1988	c	c	100 5/32	6.2
7⅛	1993	c	c	100 20/32	6.97
7¼	1996	c	c	100 22/32	7.15
7¼	2016	c	c	100 24/32	7.43

Source: Harris Trust Savings Bank

Treasury Index

Maturity (years)	Return index	Nov 26* Day's change	Yield	Day's change
1–30	159.80	+0.19	6.89	−0.02
1–10	152.07	+0.12	6.57	−0.02
1– 3	141.96	+0.04	6.21	−0.01
3– 5	155.01	+0.11	6.67	−0.02
15–30	187.49	+0.39	7.90	−0.02

Source: Merrill Lynch

Corporate	November 27* Price	Yield	Prev Price	Yield
AT & T 3⅝ July 1990	c	c	92.04	6.40
SCBT South Central 10⅛ Jan 1993	c	c	106.447	9.49
Phibro-Sal 8 April 1996	c	c	98.875	8.17
TRW 8⅜ March 1996	c	c	102.875	8.297
Arco 9⅜ March 2016	c	c	108.625	9.03
General Motors 8⅝ April 2016	c	c	92	8.896
Citicorp 9⅜ March 2016	c	c	99	9.473

Source: Salomon Brothers

FINANCIAL FUTURES

	Latest	High	Low	Prev
CHICAGO				
US Treasury Bonds (CBT) 8% 32nds of 100%				
Dec	99-205	99-23	98-31	99-13
US Treasury Bills (IMM) $1m points of 100%				
Dec	94.725	94.73	94.70	94.72
Certificates of Deposit (IMM) $1m points of 100%				
Dec	—	—	—	—
LONDON				
Three-month Eurodollar $1m points of 100%				
Dec	93.98	94.01	93.98	94.02
20-year Notional Gilt £50,000 32nds of 100%				
Dec	108-08	108-25	107-10	107-09

* *Latest available figures*

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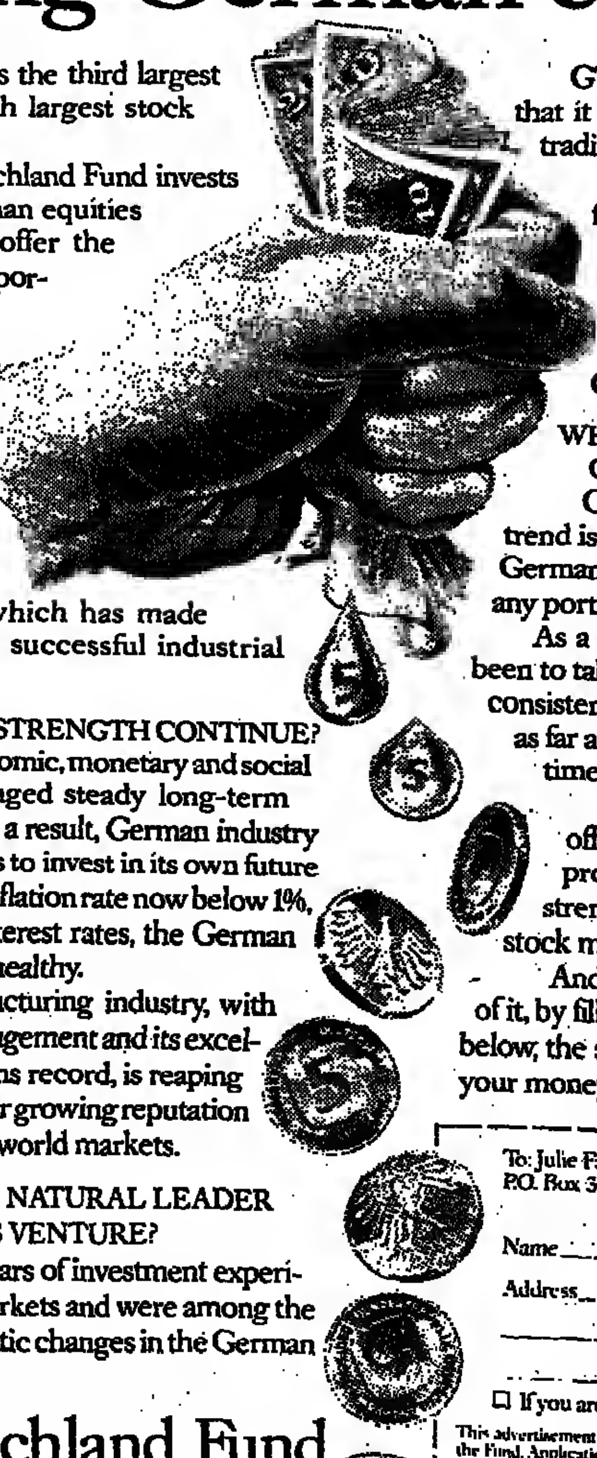

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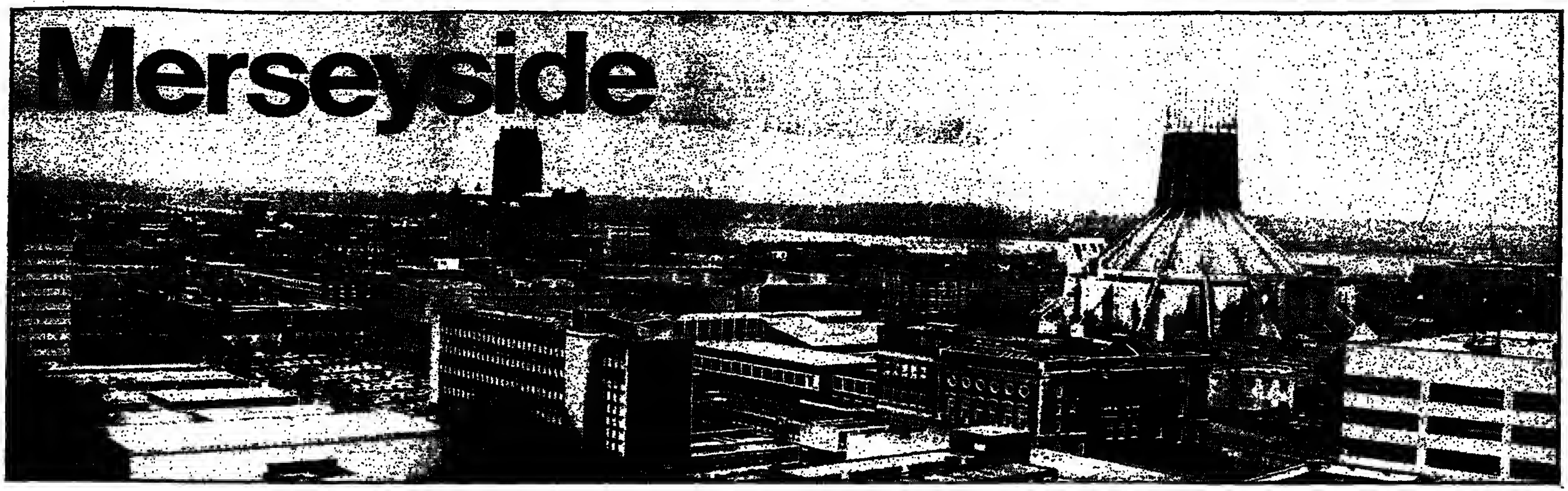
GT Deutschland Fund

FT13

SECTION III
FINANCIAL TIMES SURVEY

Merseyside



Mixed views in the dialogue

Liverpool's political problems have obscured the many co-operative efforts to reduce dereliction and unemployment in a county which includes affluent areas too.

By Ian Hamilton Fazey, Northern Correspondent

Pictures by Roger Taylor

"LIVERPOOL has been, and continues to be, a political football. Its fortunes are heavily affected by political attitudes. Yet one and half million people's interests are at stake, as well as those of some 20,000 firms."

The words are those of Prof. Patrick Minford and Mr Peter Stoney of Liverpool University's Department of Economic and Business Studies. Most of the 1.5m people do not live in Liverpool but elsewhere on Merseyside, a conglomeration of five boroughs with Liverpool at its heart.

But Liverpool is the high-profile centre and Merseyside is really greater Liverpool however mnch the citizens of St Helens, Bootle, Southport and the pretty villages of the Wirral would dispute it. The parts of Cheshire and Lancashire which lie in the Merseyside Special Development Area cannot escape the tar-brush either: Liverpool is the economic and social capital of a sub-region running from the M6 to the east across into North Wales.

If Liverpool catches a cold there is no cordon sanitaire to protect its hinterland. What happens in the city is therefore central to the Merseyside economy. As this survey shows, some of the events in Liverpool of recent years have severely damaged business confidence.

The situation is almost certainly worse than in the aftermath of the Toxteth riots of 1981. These resulted in Mr Michael Heseltine, then Environment Secretary, styling himself "Minister for Merseyside" and spending a great deal of time there. The effect was more than hopaful.

He shamed people into working together, leading by example, admitting his own party's faults and ending what he so graphically described as "the dialogue of the mountain tops" between warring political, geographical and social groupings. He also dragged the private sector into investing in Merseyside.

Since his promotion to Defence Secretary at the beginning of 1983 things have gone backwards. His four successors have not had the same flair in promoting private sector involvement. They have also been more confrontational in their own right, admittedly in self-defence in most instances.

There is now no dialogue at all between many of the groupings involved. The election in 1983 of the Trotskyite-infiltrated Liverpool Labour Party to run the city council is seen widely as the key event, turning Liverpool into a redoubt of socialist fundamentalism.

A moratorium on local elections because of the abolition of the metropolitan counties back-fired on the government, giving Liverpool's Labour rulers a year of unaccountability at the ballot box in which to consolidate. The swing against them this year—8 per cent to the Liberals when Labour was making big gains everywhere else in England and Wales—was not enough to unseat them in one go.

Mr Keith Robinson, director of Merseyside Chamber of Commerce, says that most of the business community believes that the Labour leaders of the local authority have done more damage to the region's image than decades of industrial relations problems.

The council's approach, to adopt a "municipal" solution and regenerate the region's central economy through building council housing, has led to beneficial transformation of many areas of the city.

No one objects to these ends, only to the means of achieving them. The Government believes that a more mixed, co-operativa approach would have seen the privata sector bearing a lot of tha cost. To afford its programme, the city was put through two budget crises to try to twist the government's arm to pay for it, and then put into debt for much of the 1990s as money was borrowed from Swiss and Japanese banks to bridge the budget deficits incurred.

At the same time, the regional community split into hostile camps: Labour against Liberals and Conservatives, the business community against Labour, the black community against Labour, the outer boroughs against Liverpool, and even Labour against Labour in what is becoming an increasingly vicious political civil war—with Mr Neil Kinnock, the Labour leader, trying to prevent further damage to his party's credibility as a potential government.

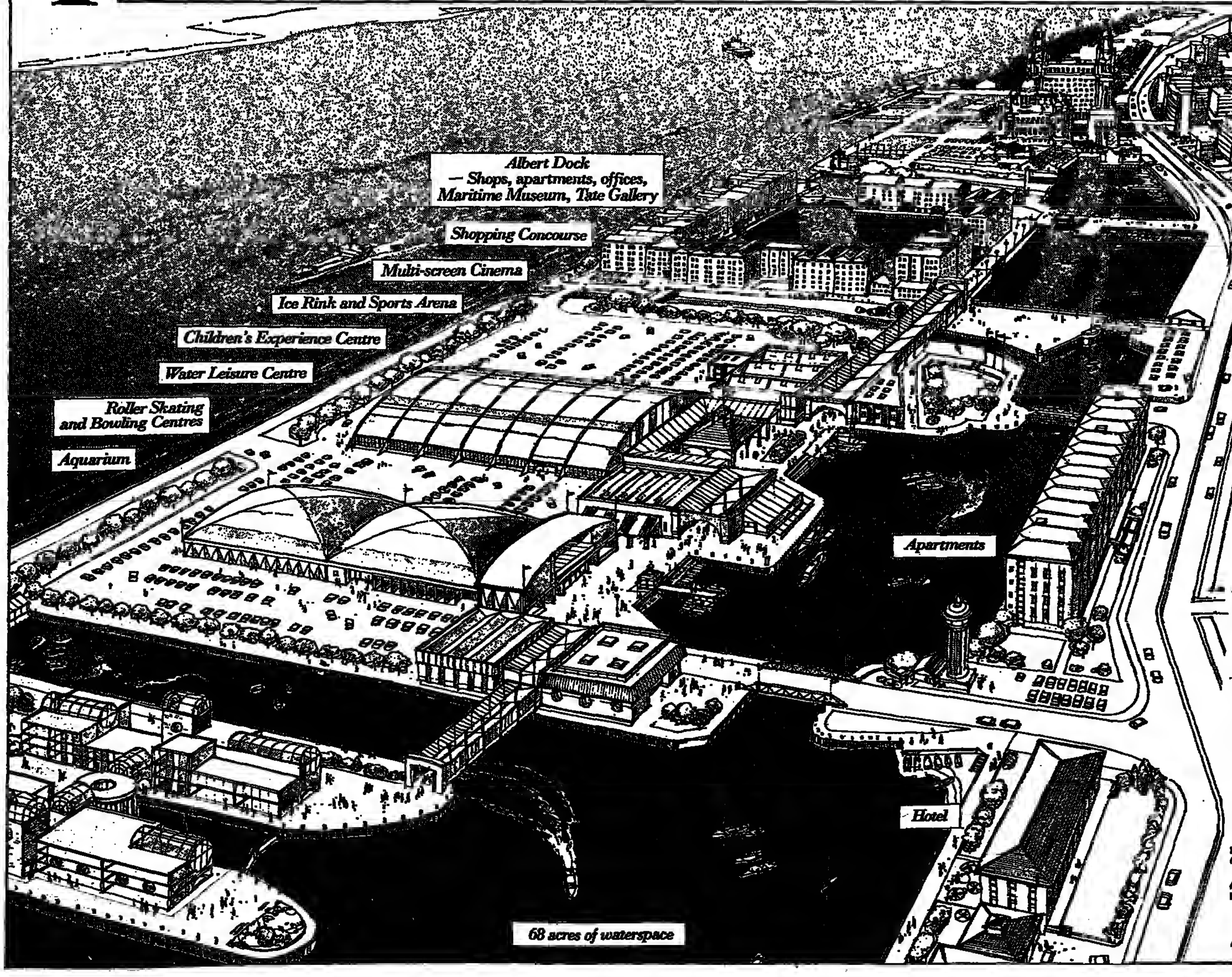
This is almost "mission accomplished" for the Trotskyite groupings—and the Militant Tendency is bnt one of them. According to Marxist theory, political and economic chaos should breed increasing discontent wbich can be used to radicalise the proletariat towards full blooded socialism, if not revolution. At the very least, the sort of conditions should be created that will have everyone complaining.

And Merseyside has mnch to complain about. As everywhere else in Britain, this month's figures showed unemployment falling, but it is still 20 per cent—about 138,000 in the county as a whole. Of the five boroughs, Liverpool alone has about 56,000 out of work. Wirral

TURN TO PAGE 14

CONTENTS

THE SHAPE OF THINGS TO COME



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To the south of Albert Dock, the Development Corporation – working closely with the private sector – is creating an unique environment with construction about to start on a major ice/sports arena, multi-screen cinema complex and shopping concourse. 68 acres of recreational waterspace has already been created and work has started on converting Wapping Warehouse into superb waterfront apartments.

The Development Corporation will be actively promoting the entire waterfront development and is confidently expecting over four million visitors a year by the early 1990s.

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Politics

Fight against city stigma

POLITICS on Merseyside has severely damaged business confidence in the region. This is soon apparent talking to the people who run businesses there, business leaders nationally and in the views of Merseyside Chamber of Commerce and Industry.

The high-profile confrontational tactics of the Labour leaders of Liverpool city council are held responsible, no matter that Liverpool is but a little more than one-third of a 1.5m-strong conurbation that includes four other boroughs.

No matter either that 56 per cent of the city's electors did not vote for Labour in last May's municipal elections. With just over one-third of the 100 council seats being contested, even an 8 per cent swing from Labour to the Liberals—the Conservative share of the vote collapsed to a derisory 10 per cent—enabled the Militant-infiltrated ruling group to hang on to power.

The other Merseyside boroughs—Knowsley, St Helens, Sefton and Wirral—have looked on events in Liverpool with dismay, whatever their own local politics.

With the unifying force of Merseyside county council now removed through abolition, there is in St Helens a strong local feeling to revert to Lancashire for postal — and propaganda—purposes at least. Similarly, Wirral wants to stop being in Merseyside with a Liverpool postal address, and so do Sefton's main towns of Southport and Bootle.

In Knowsley, the business community has been fighting not to have to put Liverpool postal codes on its letter-headings.

None has any chance because the Act of Parliament that abolished the metropolitan county councils did not abolish the counties themselves. Merseyside lives—just as do Tyne and Wear, West and South Yorkshire, and the West Midlands—though without the stabilising influence of a county council that provided a more reasonable overview and was run by councillors and officers of heavier political weight.

For most of the time since local government was reorganised in 1974, Merseyside was carved up evenly between the parties. Labour has been solid in Knowsley and St Helens, the Conservatives traditionally held Sefton and Wirral, while the Liberals ran Liverpool with Conservative support.

However, the Conservative vote has been collapsing throughout the past three years. Sefton and Wirral both now have "hung" councils with the Liberal-SDP Alliance in the middle of the see-saw. In Liverpool, Labour took power in 1983, with the Liberals the main opposition and the Conservatives a miserably small third party with only six council seats.

How things will develop from here, however, depends on two things that have nothing to do with the ballot box—the Liverpool Labour councillors' appeals against surcharges and disqualification from office for last year's rates rebellion, and Labour's civil war, as Mr Neil Kinnock tries to gain ascendancy over militants and other ultra-Leftists in his party.

The Liverpool appeals will be heard in January by the House of Lords. So far, the councillors' delay in setting last year's rate—it cost the city £106,000 in lost interest—has been judged unlawful by the district auditor, the High Court and the Appeal Court.

If their appeal fails, they will be disqualified from office. By-elections will be called within seven weeks. In the meantime, those councillors not disqualified—Liberals, Conservatives, a handful of Labour rebels against their own caucus, and a small number of Labour councillors elected since—would be in charge.

There is a general worry that the city's security force, swelled with Militant loyalists recruited into what has been dubbed "Derek Hatton's private army," would then physically prevent the council's rump from governing in the meantime, in the hope that more militant supporters would be elected at the by-elections to carry on as before.

If the appeal succeeds, it will be the municipal elections of next May and, because of the demographic spread of solid Labour pockets of support, the years after, that will decide the composition of the council.

What would be the composition of Labour factions within it will depend on how Mr Kinnock has fared in Labour's civil war on Merseyside. The drive to rid the party of the influence of Trotskyite groups such as Militant and other far-Left factions has led so far to disbandment or suspension of several Merseyside Labour parties.

Liverpool district party has been disbanded and so has that of Broadgreen constituency, which is represented by the militant MP Terry Fields. St Helen's district party is suspended pending disciplinary hearings — there is a strong moderate wing ready to take over there if purges are eventually made. And Knowsley North's constituency party faces disbandment and purges after its mutiny against the imposed Labour candidate in this month's parliamentary by-election.

Mr Kinnock's strategy seems to be to use party officials to rebuild Labour's political machinery from the ground up, extending bridges to rank-and-file members and encouraging moderate supporters to join and establish a majority over ultra-Left activists. His problem may well be finding enough moderates with time and talent to hold the ground in the long term.

Meanwhile, the Liberals and SDP will be exploiting Labour's problems.

Where clusters of council housing may prevent them taking all the seats they need to run Liverpool city council in one go, their performance in Knowsley North—a 14 per cent swing to Liberal from Labour and a 16 per cent swing from the Conservatives—suggests they can squeeze both parties hard at the general election, especially the Conservatives in Labour-held seats.

They see three or four gains on Merseyside as strongly possible, with Labour under threat in the Liverpool seats of Broadgreen, West Derby, and Garston and the Conservatives at risk in Crosby and Southport. If they succeed, this would give them a national forum for their regional voice.

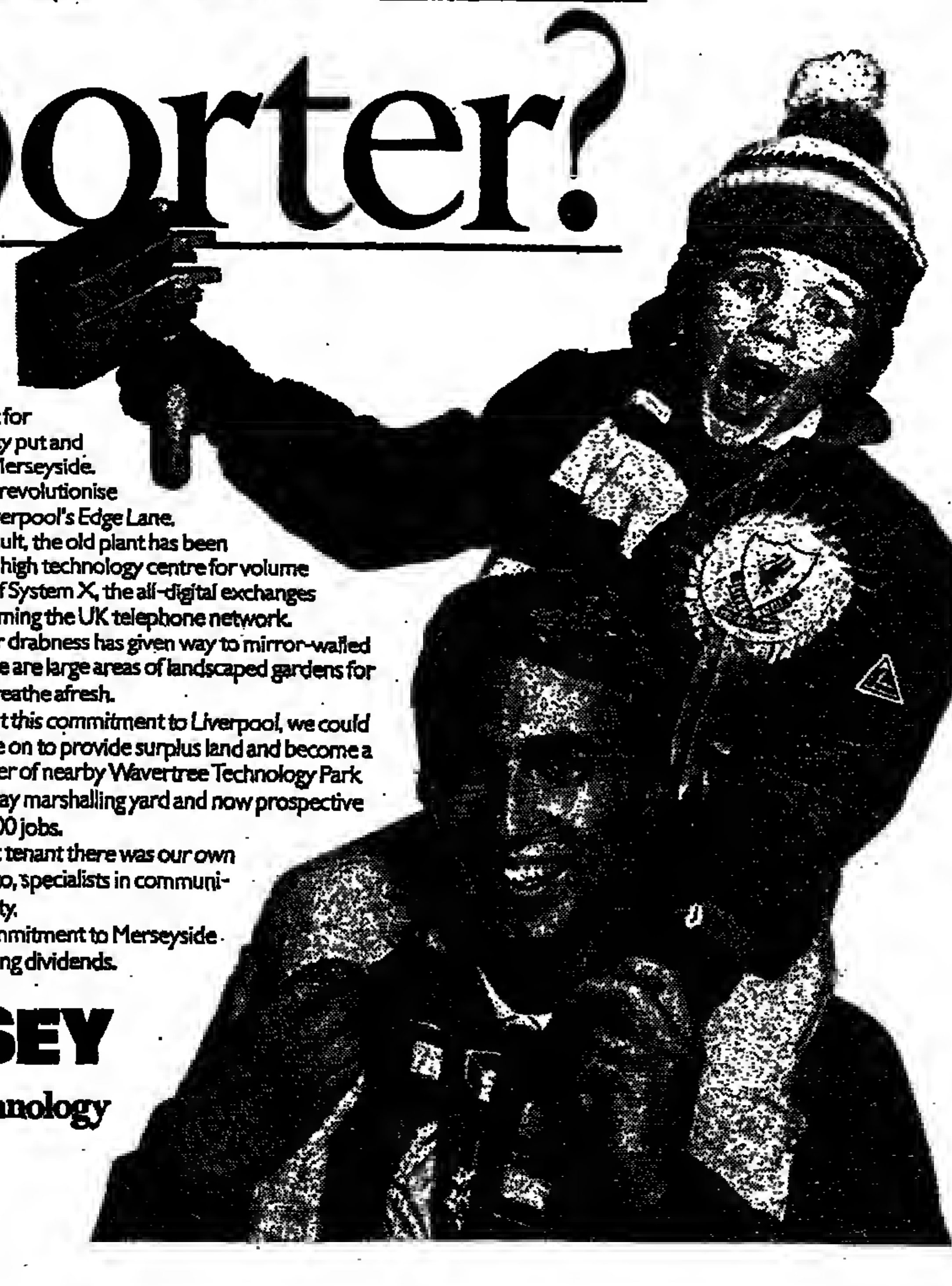
How this would affect political stability on Merseyside is open to question. As the drawn-out process of Labour's disciplinary hearing and the legal proceedings against the Liverpool councillors have demonstrated, there are no quick solutions or easy answers when people are unwilling to co-operate in their own political executions.

It does not need genius to assess the prospects for a restoration of business confidence in the region. Meanwhile, the business community that is stuck there will be soldiering on.

Ian Hamilton Fazey

Liverpool's political image. Militants Tony Mulhearn (left) and Derek Hatton (centre), with former council leader John Hamilton, at Liverpool Town Hall before a march in support of their rates rebellion

Who's Liverpool's staunchest supporter?



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Inner city policy

Focus on reclamation

THE DERELICTION faced by the Merseyside Development Corporation was on a scale unrivalled in the UK outside the *London docklands*. Four years and millions of pounds later, the signs are that in parts of its patch, at least, the tide is turning.

The corporation was given wide-ranging powers. It is the planning and development control authority for its 865 acres, negotiating lease terms and acquiring land. It has bought *substantial* acreages of derelict and disused land, most of it owned by statutory bodies.

"But perhaps our principal asset is that we are dealing with a small area with a sharp focus," says MDC's chief executive, Dr John Ritchie. "It was chosen for its maximum dereliction, which no local authority could possibly tackle and where the *maximum impression* could be made. But it has meant that we have had to reclaim every single acre before it could be *redeveloped*.

"The area was so run down that commercial developers didn't believe that government had the will to remove the dereliction. We are about to change that perception."

Sites are *prepared* to the point where the private sector can make a commercial return, with the MDC so far spending *£6 for every £4* invested by the private sector. "More than 50 per cent of our expenditure has just gone into the ground, but without that level of investment we couldn't even make a start," says Dr Ritchie.

In the South Docks, for example, the corporation has put about £20m into reclamation and clearing silt which had *in places* reached the level of high tide.

Such levels of public-sector investment *seem* to be paying off. The Albert Dock is already established as one of the north-west's major attractions, drawing in some 2m visitors each year. With over 1.2m sq ft of floor space, these warehouses are more than twice the size of the nearby Royal Liver Building, and the largest group of Grade I listed buildings in the UK.

The MDC now says it is close to clinching deals for a 2,500 seat, 10 screen multiplex cinema, specialist shopping and a 5,000 seat ice arena, capable of staging international skating events. "We had a number of proposals for multi-million pound mega schemes, but we decided *instead to market individual sites*."

Private sector involvement has so far varied from project to project. In a two phase arrangement with London property company, Arrowcroft, the corporation met the *costs of the* external refurbishment of the entire Albert Dock warehouse complex, and Arrowcroft the costs of fitting out the ground and mezzanine levels with shops. The costs of converting the upper floor to offices and flats is expected to be borne entirely by the private sector.

External work to the Dock Traffic Office, *now* the news gathering centre for Granada television in the north-west, was carried out by the MDC. Granada paid a premium for the building shell and fitted it out. In that case, £5 has been spent by the private sector for every pound put in by the MDC.

The conversion of the Albert pump house as a pub and restaurant is being achieved with no cash from the corporation. Whitbread paid a premium for the site and is also meeting the cost of the conversion.

The Tate Gallery is paying for most of the internal works to the warehouses as its northern home, with some grant aid from the MDC. The first phase of 1,700 sq m of gallery space is due to be opened in May 1988 at a cost of £6.5m.

The MDC is meeting the costs of *external* work to the Wapping Warehouse, with Barratts converting it into 114 flats and paying the corporation a percentage of the profit, with flats expected to sell for between £20,000 and £35,000.

These historic buildings of the South Docks have provided a unique opportunity for the MDC to counter Merseyside's image of despair. In other parts of its designated area, with no such attractive focus for *development*, progress has not been as spectacular.

In the Wirral, the Mersey Docks and Harbour Company has not yet released a large part of the MDC's designated area, though the corporation hopes to acquire it *in the New Year*. At present, the MDC owns about 45 acres of the 215 acre Wirral docks complex, where with the MSC it has set up the Monks Ferry Training Centre. The corporation has agreed to meet capital costs for dock basin *and* building refurbishment to enable the centre to expand from just over 100 training places to 500 by 1988-89.

But the major part of Wirral docklands faces an uncertain future, says Dr Ritchie. Much of the land will take at least three years to clear. Even then, he is not optimistic that industry will form part of any new investment. "We may have to settle for residential or open space use for some time to come. We don't have the money to build factories."

Industry has in general been *slow to respond to investment* opportunities as first outlined in the MDC's Initial Development Strategy. "Merseyside will never attract large-scale factories from Japan or America. The marketing costs alone are horrendous and totally disproportionate to the benefits," says Dr Ritchie. "Our job is to be as flexible and responsive as possible to what the market wants. At present, service industries provide the main opportunities."

So, for example, the corporation had to review its plans for the Herculaneum site. High technology firms were originally envisaged for land created by filling in a dock for a car park serving the Garden Festival. But demand for vacant industrial land proved weak, so a proposal is being prepared for a retail warehouse park, *for* which market interest has been established.

There has been progress on the industrial front, but mainly on a small scale. A joint venture between the MDC and BAT is one example. BAT identified a 60,000 sq ft building in the South Docks for conversion into enterprise workshops. The total cost of the scheme was £1.2m with MDC contributing £300,000. The building was fitted out by BAT to include 100 units, now employing a total of between 300 and 400.

Perhaps too much has been expected of Merseyside Development Corporation too soon, and unfair comparisons made with the scale and speed of development in London Docklands. "The state and condition of the area along the Thames was nothing compared with Merseyside," says Dr Ritchie.

He warns: "The ratios of private to public sector investment now being talked of for the new urban development corporation areas elsewhere in the UK generally seem too optimistic."

Alastair Guild

Liverpool Task Force

Little common ground with city council

WHAT DOES the future hold for the Task Force set up five years ago by the Government on Merseyside? It is a question increasingly being asked in the area and drawing some forthright answers.

According to Mr Michael Parkinson, director of the centre for urban studies at Liverpool University: "It has had the legs chopped from under it."

"Ministerial support has been withdrawn. Baker never took the titla of Minister for Merseyside and Ridley certainly never will. It has always been under-resourced, but its major problem has bean trying to ettract private sector investment to an area where economic activity is so thin."

There is a widespread feeling also that the Task Force has been gradually losing its role in co-ordinating initiatives, reverting instead to the status of regional office of the Department of the Environment. This has in turn meant a lower priority for industrial and employment initiatives. The DTI'e view is that the Task Force "is whistling in tha wind against market forces," Mr Parkinson says.

One of the Task Force's main jobs is indeed to administer the DOE'e existing urban programmes on Merseyside. Liverpool, one of seven partnership authorities in the country, has an urban programme allocation of over £20m a year. "We have to agree and run that programme with the city council," said one government source. "But we have come perilously close to drawing the line, with the council late in submitting its proposals, a thinly disguised rehash of the previous year'e strategy."

Task Force officials helieve that more progress could have been made on regeneration with fuller co-operation from Liverpool City Council. "On balance the city has lost out by not playing ball, but thet would have meant it toeing the government line and compromising its own programme," says Parkinson. "Hardly worth it for an extra per cent on its budget."

There have been glimpses of co-operation. After many months of persuasion, Task Force officials believe they heve convinced the council of the need to improve Liverpool'a image by a city centre improvement programme which it would fund through the urban programme.

But elsewhere there seems little common ground. Many of its initiatives in the housing field, for example, run completely contrary to those of Liverpool City Council. Yet bousing is the sector where officials and ministers feel the Task Force has proved most successful in "packaging" assistance, and involving the private sector.

Through its pioneering community refurbishment scheme, bringing together the DOE's urban programme and the MSC'e community programme, 7,000 council houses on Merseyside have been upgraded, though none in Liverpool. The scheme is intended to draw its workforce from people living on run down estates, and with materials bought with nrban programme money, restore pride to an area.

The Task Force also initiated rescue packages for whole estates. At Woodchurch in Birkenhead in Wirral, for example, it made available additional funding to the local authority. After some initial hesitation, Wirral came forward with detailed and costed proposals which met the criteria set down by minister for the scheme: to regenerate the central area through a programme of improvements to the environment while retaining housing stock in the public sector.

More importantly, the propsosals set out to secure the support of the private sector in providing low cost bomes for sale. Housing associations also built houses for sale, while builders, George Wimpey was persuaded to take on the central area lock stock and barrel and redevelop it as a commercial proposition, providing mainly shops. Similar rescue packages are now being adopted in Bootle in Sefton.

Snch initiatives were the forerunner to the Urban Housing Renewal Unit, now operating from London, providing and brokering funds for 120 rescue packages throughout the country. One of the units main tasks has been to encourage the disposal of housing estates to the private sector, with urban development grants used to help fund refurbishment.

Ministers have also been concerned that privete developers are often put off by the cost of building houses on inner city rather than green field sites. In areas such as Merseyside, there is little demand from first-time buyers for bouses costing more than £17,000, whereas builders would more often be looking to sell et over £20,000 to cover the cost of development.

Meanwhile, housing co-operatives, viewed by many in the local Labour party as a total anathema, are seen hy government as one of the ways in which people can escape from toe oureaucratic control, insensitivity and inefficiency too often associated with housing provision in the public sector.

Special funding from the allocation from Merseyside, channelled through the Housing Corporation has been made available to fund a number of co-operatives. Liverpool pioneered the housing co-operative movement in the late 1970s, as an alternative approach to managing older housing stock. Merseyside now has more than anywhere else in the country, with 40 co-operatives owning or planning 2,000-plus homes.

The higher development costs usually associated with co-operative schemes compared with those run by housing associations have been recognised, with the Task Force helping to finance "professional" secondary co-ops to provide training, advice and support.

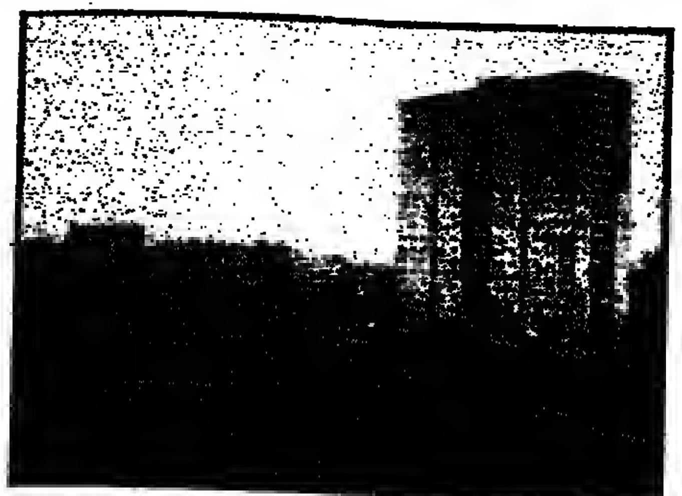
On the employment front, one of the successes has been the transformation of the Knowsley industrial estate. A secondee from United Biscuits was put in to encourage industrialists to do something to prevent the estate from deteriorating further, and once thet barrier had been crossed, finding ways of helping people to carry out improvements. A package was put together by the Task Force, with funds coming from the DTI and the European Regional Development Fund.

Another secondee, a stores director from Littlewoods, was given a brief to develop a tourism strategy for Merseyside when the County Council was abolished. He set up the Merseyside Tourist Board, a company limited by guarantee. All major private sector firms in the area are represented on the board, and will eventually become subscribers, though at present, a major part of the funding is provided by the Task Force through the Merseyside Development Corporation.

The Task Force has also helped develop training schemes, with money from the DoE's programme, the DTI and the MSC establishing ITECs, commercial business training centres and enterprise workshops.

The scope for the Task Force, in its present form, to bring broader economic development to Merseyside is limited, according to Michael Parkinson. "Its much easier to improve the physical environment than it is to change the economic climate. The initial style of high initiative, high prestige projects and Ministerial involvement could not be expected to continue. Merseyside is very much off the government's agenda."

Alastair Guild



One of the priority areas on Everton Heights. The formerly bleak area around the flats is being turned into landscaped parkland

Alternative Strategy

Introducing a human scale

LIVERPOOL City Council's "strategic approach" to inner city regeneration may have incurred the wrath of central government and may not have been short of sceptics on Merseyside either. But about the transformation that has taken place since 1983 there is little doubt.

Monolithic tower blocks and sprawling estates have been replaced by parkland, and a streetscape and housing on a much more human scale. "Top-downing" techniques are being used to convert tower blocks into houses, while problem estates with cul-de-sac layouts and overhead walkways are being demolished to make way for traditional semis and terraces that face on to well lit streets.

Seventeen "priority areas" were designated for this treatment throughout the city, and money from any available source pooled and poured in to bring back a sense of community spirit. But with the council constantly facing a cash crisis, its programme has been kept afloat also by a variety of neat financial shuffles, including the disposal of mortgages to a French Bank, raising £40m, and two deferred payments to a Japanese and Swiss Banks, each bringing in £30m, raising in all about £100m.

To make steady progress on all Liverpool's problems will require an annual expenditure of £130m over the next 10 years, says Mr Tony Byrne, one of the strategy's principal architects, and the new leader of the Labour group on the council. The justification for this blitz on the city's urban decay, he says, is simply that all other attempts at inner city regeneration on Merseyside have largely failed.

The conditions under which people were living were as bad in 1983 as they were in 1977 when inner city partnerships were launched, he believes.

"Inner city regeneration needs to be seen in an overall context, rather than on the ad hoc, project-by-project basis of the Urban Programme."

The council's programme has a number of elements apart from housing, he emphasises, including shopping, street lighting and leisure facilities. This has been reflected in the council's own accounting system, with resources for housing, education and social services pooled to fund work. A Central Strategy Unit was set up to target expenditure and scrutinise works for their cost effectiveness.

He, nevertheless, makes clear his willingness to work with other inner city initiatives on Merseyside. "We have a good working relationship with the Task Force, though our dialogue is not about capital resources — our partnership allocation has been in the order of £20m every year since 1977. It is more about how we spend that money."

He believes that the Task Force has in any event become "just another regional office of the Department of Environment, though set up in good faith by Michael Heseltine." Patrick Jenkin, Heseltine's successor but one after Tom King was genuinely moved by what he saw of conditions on Merseyside, Byrne believes.

The Merseyside Development Corporation has its place, but Byrne is annoyed by any suggestions that it has attracted large amounts of private sector investment. "The vast bulk of money spent has been public money, while it is not publicly accountable, and I would argue with its order of priorities. It is a monument to what I say, but not a monument I would have built."

"The question is never asked: how much of the activity in the MDC's area is relocation rather than real, though doubtless jobs created will go down in the corporation's statistics as news.

"I generally see no merit in the argument that Liverpool will be saved by private sector initiatives. There is no evidence to suggest that a bit of pump priming will bring the private sector flooding in.

"This is not to say that we will not bend over backwards to help the private sector to develop sites, but it can only be in the context of a long-term commitment to a high level of public investment."

He points to the growing signs of interest in "exploiting" the improving environment in Liverpool.

Since the May launch of its "Portfolio of Opportunities" for public and private investment in Liverpool, the council has had inquiries likely to lead to developments on 12 sites across the city. And it took the portfolio to the recent CBI conference.

Some of the 20 or so contractors already building houses for the council are now wanting to build for sale. Rogersons, a local building firm, was the first private developer to do so in one of the priority areas. A large retail development is committed for Woolton in the south of the city, while talks are under way about another major retail development on land not to the council's ownership.

As "evidence of its enthusiasm," says Byrne, the council will give any large company wanting to move to Liverpool the largest piece of industrial development land in the city of Speke for nothing. It continues its financial support for the 64 acre Wavertree Technology Park, established in 1983 as a partnership between Liverpool City Council, Merseyside County Council, English Estates and Plessey.

However, 51,000 jobs have gone from the private sector in Liverpool since 1979, while the council's strategy has meant a net gain of 10,000 jobs, Byrne claims. Some of these are in the construction industry, others are in the service industries and the local retail sector, which has benefited from the higher level of economic activity.

Byrne believes that "even in places where acknowledgement is grudging, our approach is gradually becoming accepted."

The city council's regeneration strategy is not a policy that the government has ever criticised, says one government source. "It is arguably a viable policy to take urgent action in priority areas. The problem is that the council cannot pay for it.

"The government has been supporting the strategy with funding in the order of several million pounds in the form of urban programme assistance and derelict land grants. But ministers would like to see partnership money spent more evenly on measures to support local economic development, social objectives and environmental improvement. Liverpool would like to spend all its allocation on the narrower lines of its urban regeneration strategy."

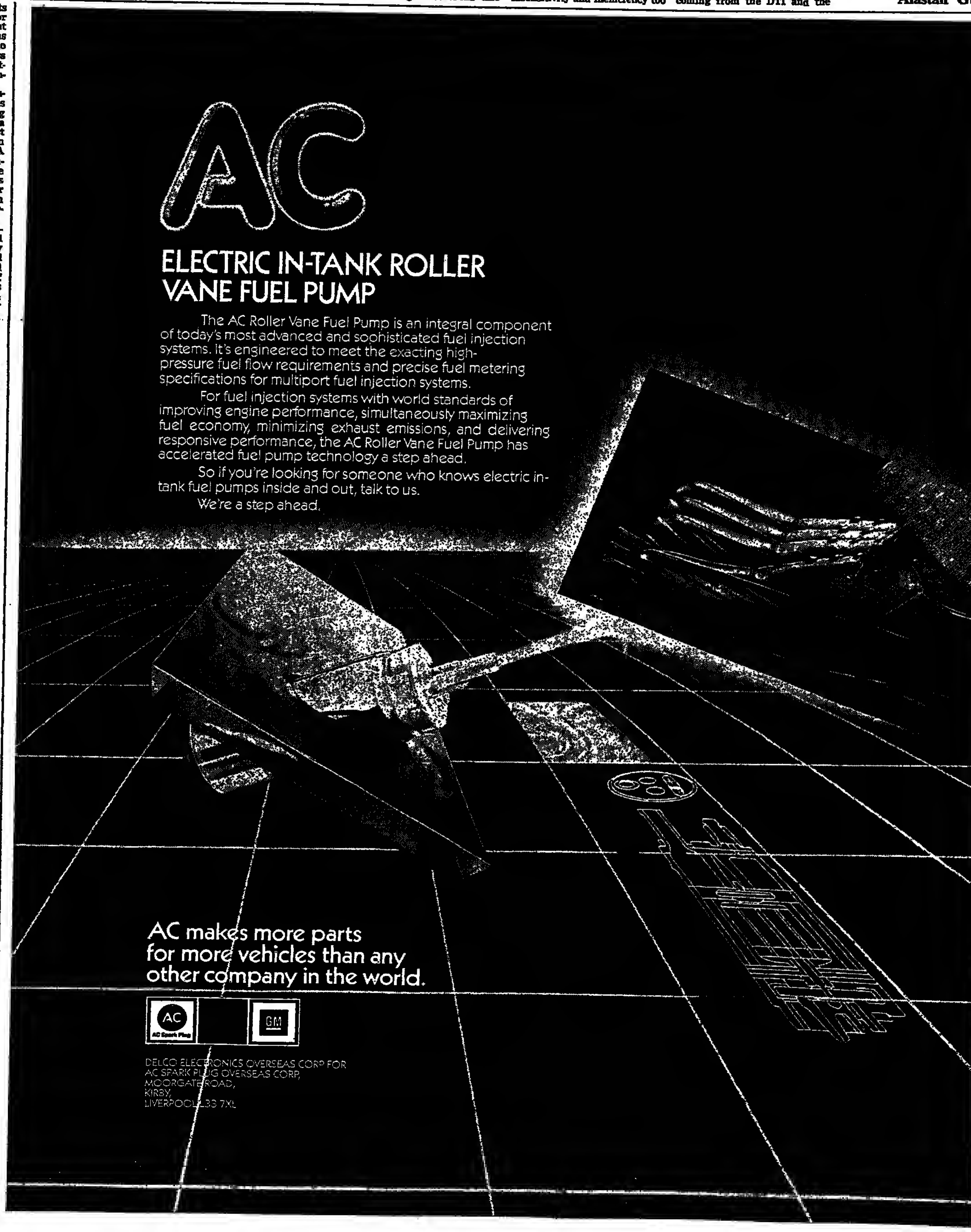
The council's decision in 1983 to disband the Liverpool Development Agency and abandon industrial improvement areas which the government was funding through the urban programme caused some annoyance in government circles. Byrne believes that Liverpool already has enough factory space, old and new, for anyone who wants it. The council is now discussing the transfer of empty factories to English Estates. "We think it is in their bag, not ours."

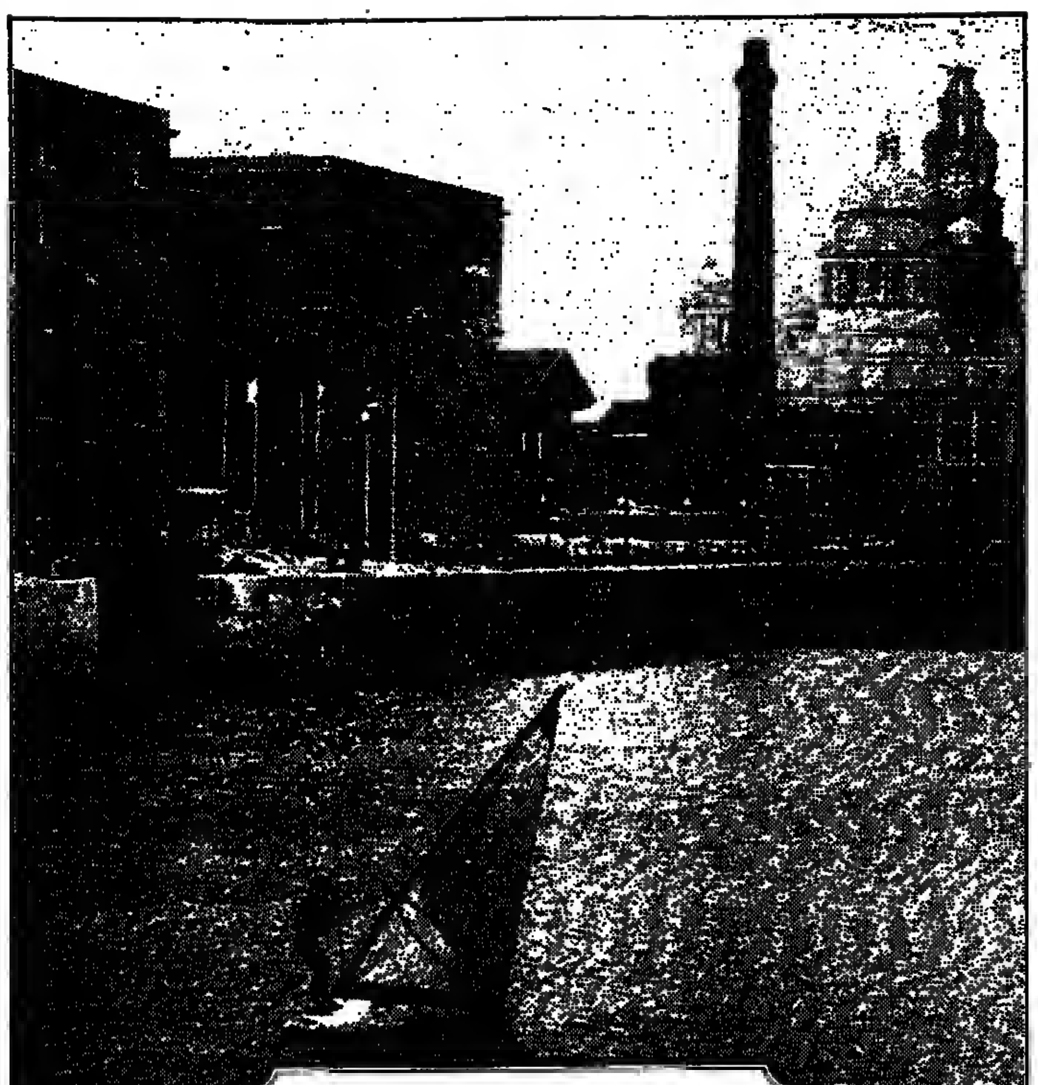
The council has also come under criticism for its decision to discontinue grants to the voluntary sector, including housing co-operatives. They are, says Byrne, a "bastardisation of the co-op movement," questioning their public control and accountability and the fairness of their allocations policy.

There are those on Merseyside and elsewhere who believe that Tony Byrne has too much control over the finances of Liverpool but his commitment to the strategic approach remains as strong as ever. It relates directly to the government's own statement of urban policy objectives, he says. "Public sector investment bringing about such a radical transformation and change in the urban landscape will restore confidence and create an investment climate conducive to the private sector."

Of the critical cash crisis likely to face the council next year, he says: "There will be a general election soon. We can hang on till then."

Alastair Guild





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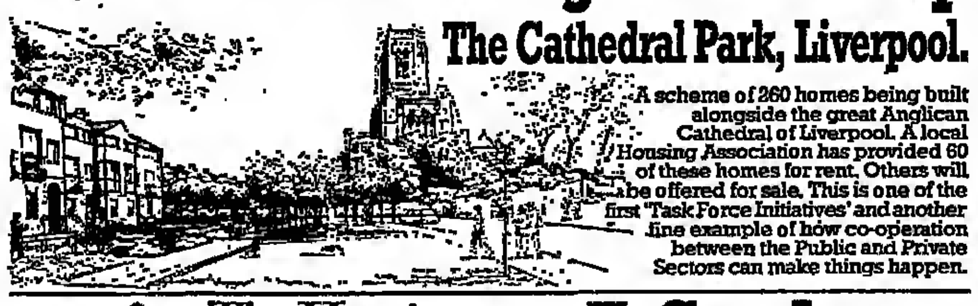

A scheme of 260 homes being built alongside the great Anglican Cathedral of Liverpool. A local Housing Association has provided 60 of these homes for rent. Others will be offered for sale. This is one of the first 'Task Force Initiatives' and another fine example of how co-operation between the Public and Private Sectors can make things happen.

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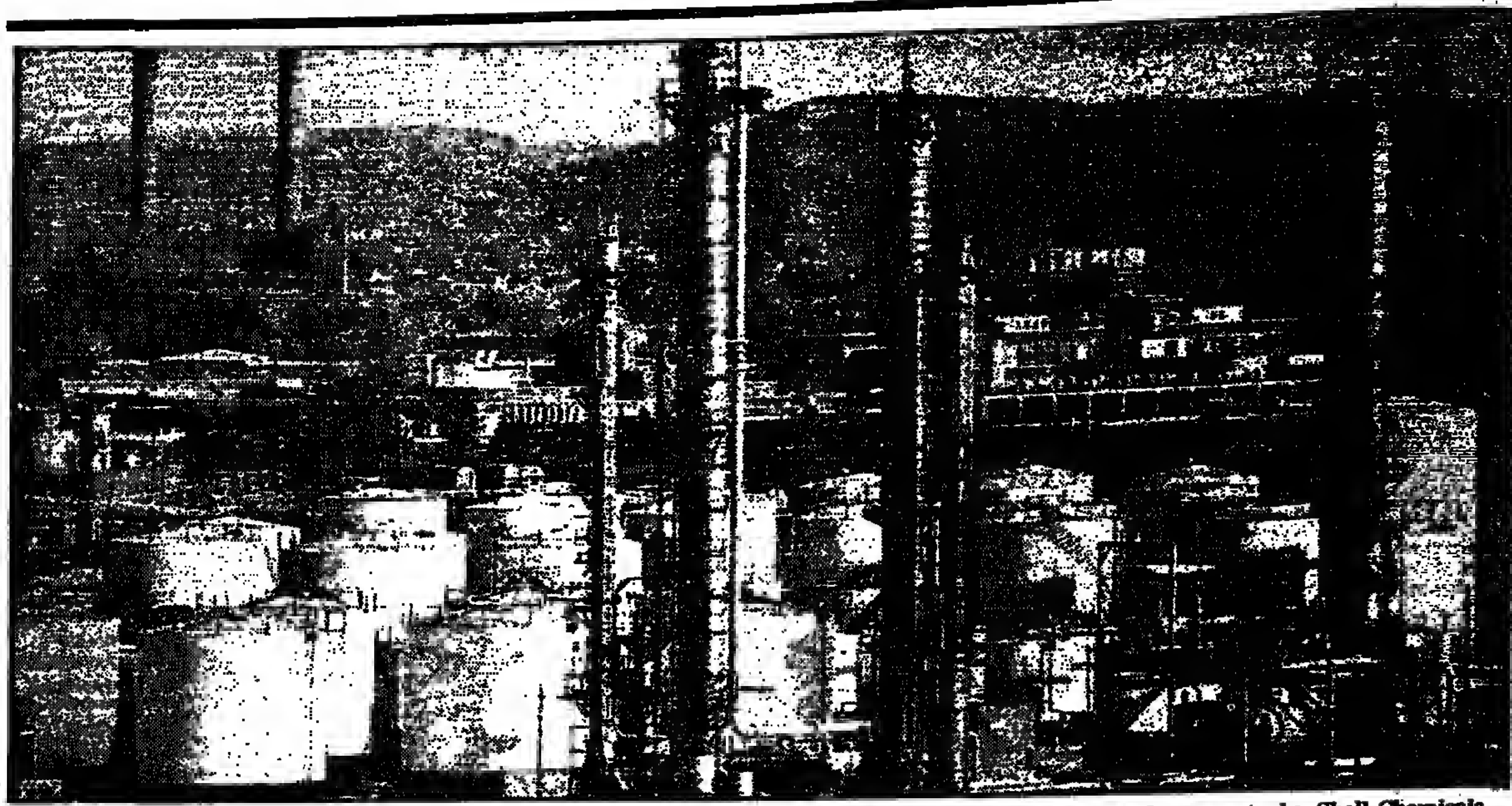


Europe's biggest oil refinery is at Stanlow, Ellesmere Port, a forest of fractionating columns, crackers and storage tanks. Shell Chemicals has recently moved its national headquarters northwards to nearby Chester

Industrial infrastructure

Transformation improving competitiveness

MERSEYSIDE's remaining large private sector employers have been experiencing a sea change in attitudes and prospects in recent years. Numbers employed have been hit by recession but there has also been considerable investment to improve productivity and competitiveness.

True, many "branch factories" of other big employers have closed in recent years, making Merseyside's private sector leaner and, in employment terms, weaker, but elsewhere managements are claiming to be leaner, stronger, more secure and with better prospects than ever for the region to build on.

Nowhere is the transformation more apparent than in the factories of the two motor industry giants, Ford and General Motors.

Ford's Halewood plant used to be one of the crosses that the company, and Merseyside, had to bear. Stoppages and strikes were common. There was a constant moan from management about productivity levels and a parallel one from the workers about the inhumanity of the assembly line.

Four years ago a real threat of closure hung over the plant. Numbers were declining steadily from about 12,000 ten years ago.

Now, Mr Don Hume, the company's spokesman, says: "Halewood has gone from being a thorn in Ford's side to becoming the jewel in the crown. It is two years since there was a dispute and targets are being met consistently."

The workforce is stable now at about 9,000. Taking employees by the planeload to see sister plants in Germany and Spain helped change attitudes. This drove home how foreign workers were outperforming those on Merseyside.

About £65m of investment helped, plus the location of five-speed gearbox production at Halewood. The plant now produces more than 1,000 vehicles a day, at 25 to 30 per cent advance on the black days. It makes all of Ford's Escorts except the RS Turbo, and also the Orion.

Quality guarantees have seen Halewood entrusted with left-hand drive vehicles for the Dutch Post Office. 'Of course, the climate in the area has had something to do with it, but there is a new enthusiasm throughout the workforce. There is a new attitude between shop-floor and management. The Escort is the leading seller in its class and there is pride in producing it," Mr Hume says.

And all this is in a factory located in the borough of Knowsley, with many employees from Kirkby, one of Britain's most notorious blackspots for unemployment and social problems.

Meanwhile, General Motors' components' maker, Delco Electronics, is actually located in Kirkby itself, in what the plant's chief executive Mr John Higham calls a "state of the art" factory.

How unemployment has hit Liverpool

	Numbers employed 1978	1984	% change	UK % change
Manufacturing	87,550	47,455	−45.7	−24.2
Other production	13,970	10,660	−23.7	−12.4
Blue collar services	108,070	87,500	−19.0	+ 4.8
White collar services	85,755	85,000	− 0.9	+ 5.1
Total	295,345	230,615		

Source: Dept of Employment, Liverpool Research Group in Macroeconomics

Liverpool residents employed

	Number of jobs	Commuters/ self-employed	Residents	Employed
1978	295,344	77,454	6,658	218,994
1981	261,193	68,500	6,443	194,220
1984	230,617	60,482	7,000	172,799

Source: Dept of Employment, Liverpool Research Group in Macroeconomics

The plant used to be called AC Spark Plugs, then AC Delco. Its new name arose from GM's takeover of Hughes Corporation. Nearly every car in the world has at least one component in it made in Kirkby. About 70 per cent of its output is exported.

Over the last four years, GM has ploughed an average of £6m a year investment into the factory. This year 200 new workers have been taken on to bring total numbers to 2,200. Mr Higham says: "We claim the highest level of technology now on Merseyside. The plant is a complete unit with a full range of designers, all the necessary test facilities and a space-age factory floor."

The company is also active socially, working closely with Ford to support the Knowsley enterprise agency. Mr Higham, a long-exiled Brummie with a deep understanding of how small businesses should be feeding large ones with parts, is personally pushing the agency's small business club as a means of opening people's eyes to the possibilities.

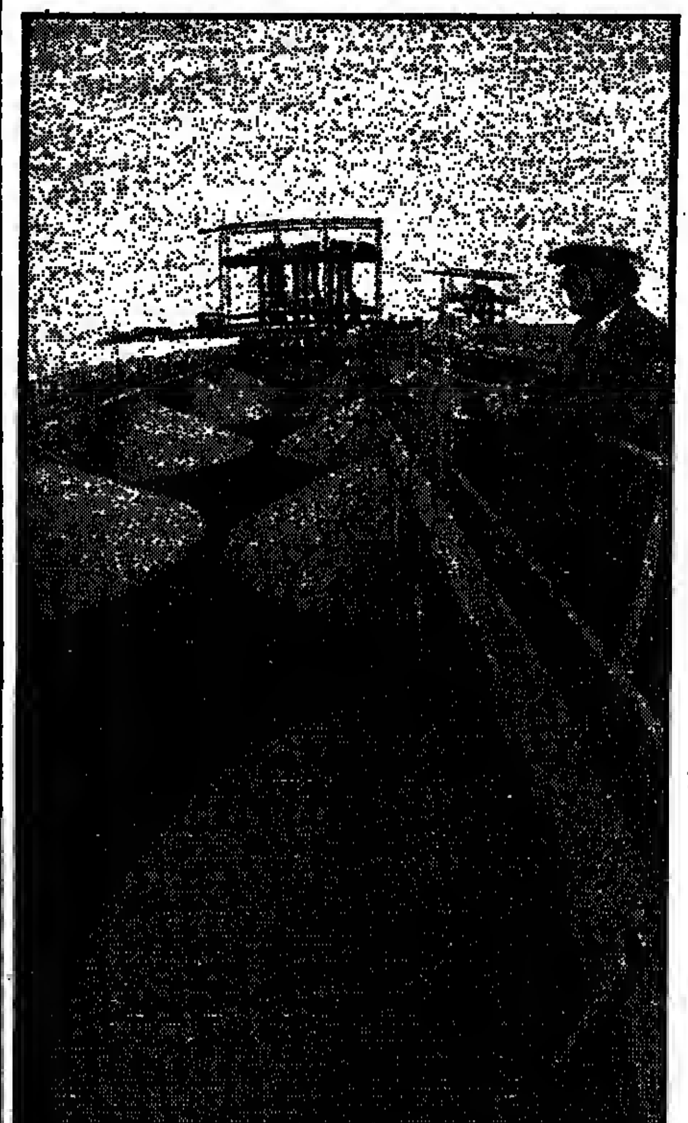
At GM's Vauxhall factory at Ellesmere Port, the Astra is the star product. There has been £100m of investment in the factory, mainly in robotics. Numbers employed show how the cycle has been developing — 7,500 in 1976, down to under 5,000 in 1984, but 5,650 now, with the plant on double shifts and production up 50 per cent to 30 vehicles an hour.

GM's current drive to reduce costs and get back into profit as a group worldwide is forcing a staff reduction of 440 this year, but that is not Merseyside's fault and it will not wipe out all of the 850 new jobs the company has created in the last 20 months.

A similar scale of investment has also been apparent at Unilever's nine plants on Merseyside, with the total figure exceeding £100m. The plants include Lever Bros, the Port Sunlight soap maker, Birds Eye at Kirkby, and Van den Burgh, the margarine manufacturer, in Wirral.

Again, productivity and long-term stability have been behind the investments, with total numbers employed down to 6,500 from about 10,000 10 years ago. The process has been made as painless as possible, using voluntary severance schemes and early retirement. There has also been support for job creation via enterprise agencies and training programmes.

Unilever's management believes that it has a profitable and significant future on Merseyside, as does BICC, which once employed 5,000 at Prescot. That is now down to only 700 in BICC components, making earthing equipment, cable accessories and the like, but the earnest of BICC commitment has been £30m of investment, a third of its short-term to concentrate resources and capacity.



Edible oil production on Merseyside was secured by the sale of Bibby's plant there to Bunge, which has put in £38m to build this plant in dockland

Merseyside has traditionally been strong in service industries. In the centre of Liverpool, the stores group Littlewoods remains prominent, a stone's throw from Royal Insurance's futuristic building, headquarters of the two biggest companies in the group, Royal Insurance (UK) and Royal Life Holdings, respectively the second and twelfth largest businesses of their kind in Britain.

Of 20,000 Royal staff, 3,000 are on Merseyside, all but 200 of them in Liverpool itself. But the group's commitment goes far beyond employment. It has sponsored the Wirral Commercial Business Centre—which trains young people in office skills—as well as concerts by the Royal Liverpool Philharmonic Orchestra.

It also seconded a senior marketing man to the Merseyside Task Force to develop the Ellesmere Port Boat Museum and has provided the director of Liverpool's Enterprise Agency.

In addition, Royal Life Insurance has put money into bricks and mortar, developing the up-market Cavern Walks block in the Cavern Club. The salvage and sale of 5,000 bricks from the original cellar club went towards a minibus for the Strawberry Fields Children's Home and a foetal monitoring machine for Liverpool Maternity Hospital.

Not everything has gone well everywhere. United Biscuits eventually withdrew from Liverpool, despite a strike-free record and imaginative plans submitted by its desperate workforce to make the factory profitable. Part of UB's buildings are being annexed by Plessey next door.

Meanwhile Plessey, having survived the trauma of technological change caused by the switch from electro-mechanical to digital telephone exchanges, has had to shed labour this year as British Telecom spread its orders among several suppliers.

A valiant effort in developing and marketing new payphones worldwide has not been able to offset this, although the adjacent Wavertree Technology Park managed to attract Plessey's Cryptographic Equipment subsidiary, forestalling its move south.

Nevertheless, there is clear evidence of a big-company commitment to Merseyside that suggests a stronger private sector infrastructure than might first appear to be the case. Such substantial reinvestment must throw doubt on the proud claim this month to the Militant Tendency's Albert Hall rally that Merseyside is the graveyard of capitalism.

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Industrial infrastructure - 2

Spectre of the long-term unemployed

"IT'S RUBBISH to say there are no growth sectors in the Merseyside economy. What about museums?"

The sharp Merseyside sense of humour is not always the best ally of those who are working to promote the region as a centre for industrial investment. A destructive taste in wit leads to workers boasting about the darker sides of the area's industrial decline and labour relations record, and managers exaggerating the skills needed to keep a Merseyside plant running smoothly.

There is some truth in the museums joke, however. They are e growth sector with, alongside the older institutions, the Tate Gallery of the North, Maritime Museum, Beetles Museum, Museum of Labour History and Museum of Emigration established or planned.

Museums are important because tourism looks like the one opportunity for creating substantial numbers of jobs in the local economy. But a strategy which looked to tourism alone to revive the region would be one which doomed Merseyside itself to the status of a museum-piece.

Merseyside has had a higher than everage level of unemployment throughout the post-war years, a problem which intensified in the 1970s and early 1980s with a well-publicised spate of plant closures and redundancies.

Today, the five local authority districts in the area of the old Merseyside County Council—Liverpool, Knowsley, St Helens, Sefton and Wirral—have an overall unemployment rate of 20.8 per eent. Local rates in pockets of the region can be twice or three times this level.

A 20.8 per cent unemployment rate means 140,472 jobless individuals. This huge problem of numbers is compounded by the fact thet the region has a disproportionately high number of unskilled workers who bear the brunt of the unemployment problem and, consequently, a disproportionate number of long-term unemployed.

But it does not mean that all manufacturing has left Merseyside, or that there is no investment in the plants that remain. Manufacturing still provides about 40 per cent of the region's jobs.

Mr Jack Stopforth, former head of Merseyside County Council's Economic Development Office, who now runs his own consultancy in Liverpool, recalls a survey conducted among influential national opinion-formers to test their knowledge of Merseyside industry. They overwhelmingly associated the region only with port activities and the motor industry.

Although both of them remain important to the region they do not provide the bulk of its industrial employment. Food, pharmaceuticals, chemicals and electrical engineering are all equally crucial and in some cases much bigger employers of labour.

Investmeot by the region's manufacturing employers is running at a relatively reasonable level. Both of Merseyside's multinational motor manufacturers—Ford at Halewood and Vauxhall et Ellesmere Pork—have been investing in new equipment.

Bunge and Company, the UK arm of the world's largest grain traders, is injecting £35m to replace an existing Bibby Edible Oils mill with one of the most advanced oilseed crushing plants in Europe. Shell has recently signed a 25-year agreement to take over and run the Tranmere Oil Terminal at Birkenhead.

A North West Pharmaceuticals Association has just been formed to co-ordinate the regional interests of this important and locally flourishing industry, while a High-Tech Association is being considered by business leaders.

Investment does not necessarily lead to more jobs, however. It often has the reverse effect as an elderly, labour-intensive factory is replaced by more automated equipment.

The most recent economic survey conducted by the Merseyside Chamber of Commerce and Industry showed that the percentage of employers in the region still shedding labour remained high at 29 per cent—although well down from the 44 per cent of a year earlier.

A less than universally well-received explanation as to why investment in Merseyside industry is being directed at capital-intensive rather than labour-intensive projects has been advanced by Prof Patrick Minford, who has the chair or Applied Economics at Liverpool University, and his colleagues in the university's Department of Economic and Business Studies.

Manufacturing still provides 40 per cent of the region's jobs

They have suggested, in a widely circulated new publication Merseyside Ecooomic Prospeet, that it bas something to do with the fect that average earnings for male manual workers on Merseyside continne to be above the national average.

"If the upward trend in the ratio continues we expect Merseyside unemployment to worsen relative to the rest of the country. The lesson here is that the basic laws of supply and demand cannot be ignored without penalty, which in this case is a high unemployment rate."

Prof Minforc and his colleagues would like to see the establishment of a new trust to employ people from the Government's Restart Programme for the long-term unemployed at a non-union market wage "in order to help to lower wages on Merseyside and get the long-term unemployed back into the labour market."

They are asking business leaders to pick up the suggestion, raise £250,000 to get off the ground and "provide the leadership on Merseyside the local politicians have so clearly failed to give."

Such arguments in Merseyside Economic Prospect have raised many Merseyside voices against Prof Minford. Understandably, there is more support for research from the same source, which suggests that the view of Merseyside as perpetually strike-prone is exaggerated.

Analysis of unpublished Department of Employment data over a 10-year period from 1974-83 by Peter Stoney and Ron Bean, two members of the university economics department, shows that two-thirds of working days lost and 40 per cent of all stoppages came from just three industries—shipbuilding, the docks and motor vehicles, which between them accounted for less than 7 per cent of the region's total em-

Nonetheless, the problem of Merseyside's reputation as a hotbed of industrial unrest and larger-than-life political antics remains and is widely recognised as one of the crucial barriers to attracting new investment.

"We have an image problem," says Mr Keith Robinson, director of the Chamber of Commerce. "It is most unjustified and does not represent the true character of industrial relations and business attitudes in Merseyside today. But mud tends to stick."

In terms of trying to improve the image, Mr Robinson is particularly critical of the Bank of England'e decision to close its full branch in Liverpool. "A classic piece of mistiming which will be a blow to confidence and credibility in return for savings peanuts," he says.

Mr Stopforth says: "Merseyside's image is not the biggest actual problem. But it is the one which needs to be overcome before you can hope to tackle the rest of the problems."

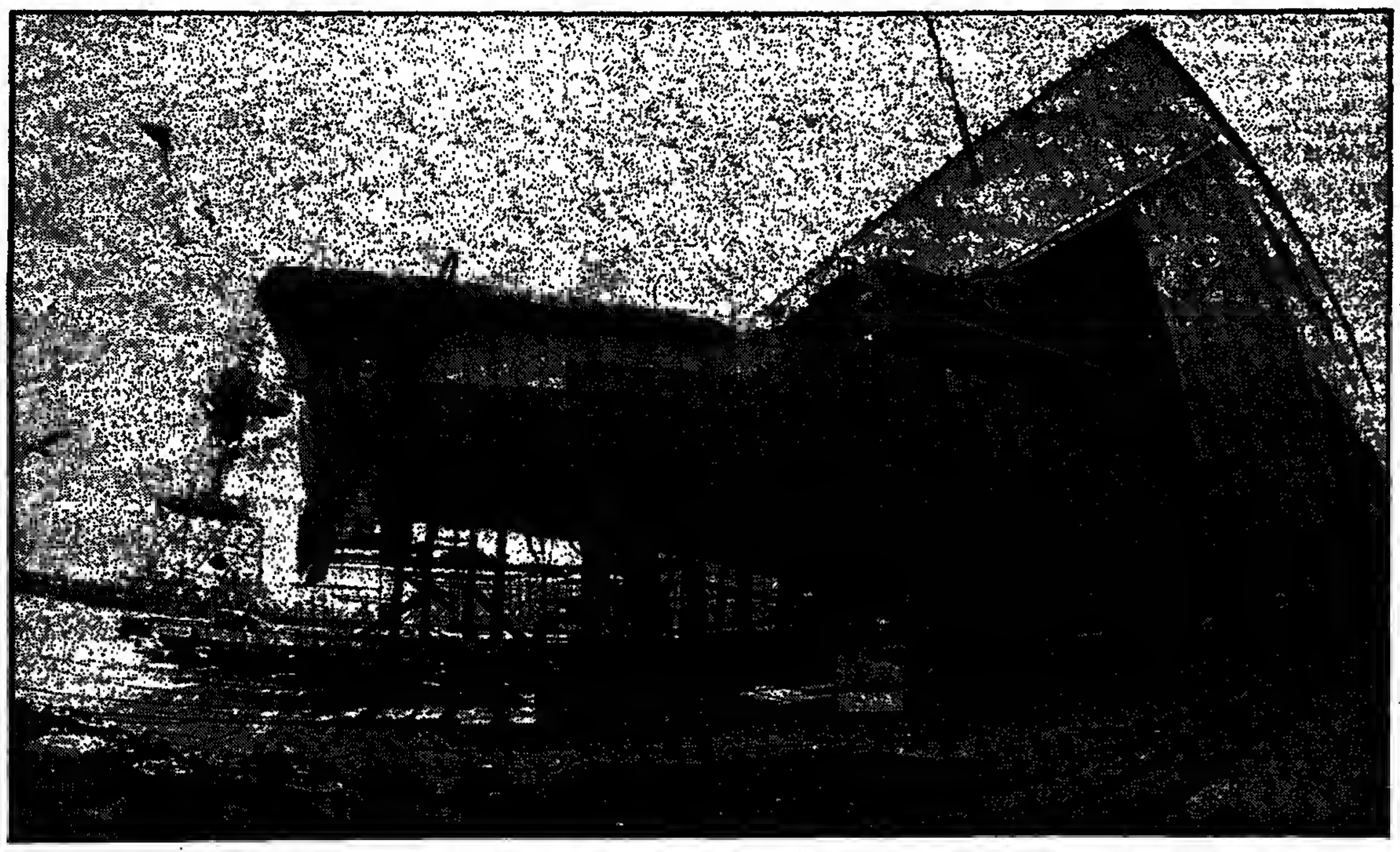
There is no shortage of bodies trying to attack the image problem and encourage new business development. The Merseyside Development Corporation offers a full array of business advice, grants and refurbished accommodation.

Merseyside Enterprise Board has survived the abolition of the county councl which established it and is about to launch a unit trust scheme to keep its business investment investment funds flowing now that the council's financial support has gone.

The labour market is remarkably self-contained. An estimated 93 per cent of Merseyside residents in employment work within the region, so successful efforts to stimulate the local economy stand a good chance of actually benefiting the people of Merseyside.

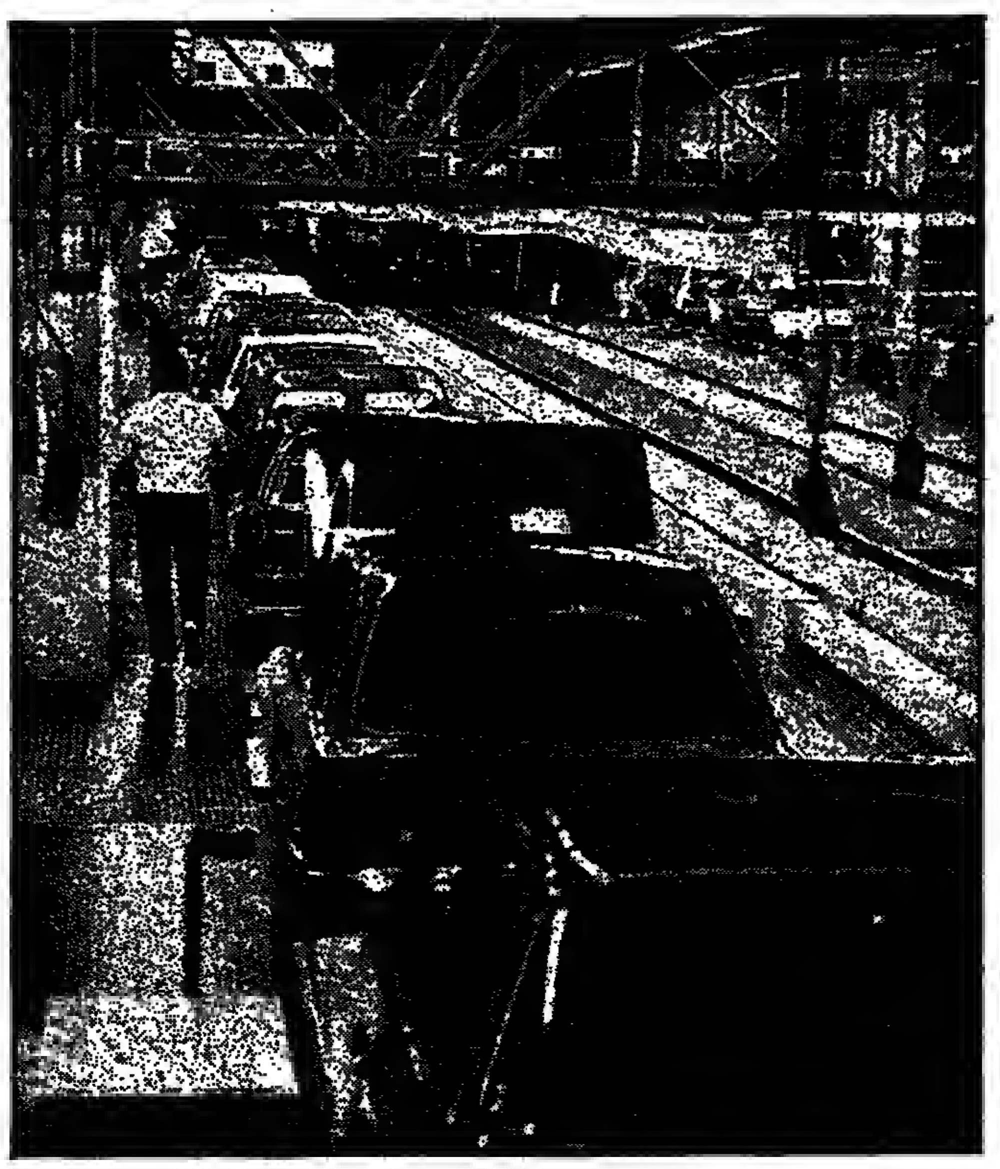
There is a widely-held view that all the efforts to stimulate the local economy are not co-ordinated in the best possible way. Since Mr Michael Heseltine's activities as Minister for Merseyside after the Toxteth riots there has been growing envy of the Scottish and Welsh Development Agencies and the Secretaries of State who are able to give political backing to their activities.

Alan Pike



Above: A warship takes shape at Cammel Laird, the Birkenhead shipbuilder, where bitter labour problems almost caused total closure only two years ago. Now, the company has been privatised and is part of the Vickers group based at Barrow. When employees were offered shares, 90 per cent of the workforce spent an average of £600 each, buying a stake in their own future. Mr Mike Murden, managing director, says that a transformation has taken place in attitudes. The workforce dropped to 1,300 from 3,500 as a result of recession and lack of orders but has risen recently by 200

Right: Ford's plant at Halewood was once the thorn in the company's side. Now the company says it is its jewel in the crown. Car production is on target at 1,000 vehicles a day and labour relations have undergone a transformation in recent years. Investment has been worth £65m so far and the factory makes all the company's five-speed gearboxes. With more investment now planned by the car maker, Halewood is hoping its new record is going to win it a substantial slice. Escorts and Orions are made at Halewood, where productivity no longer lags behind sister plants in Germany and Spain



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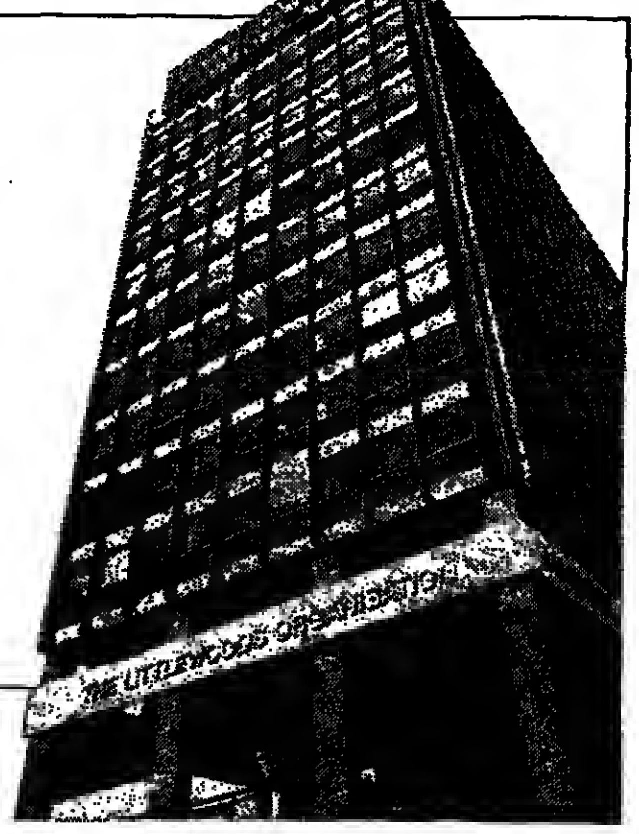

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Tourism

Potential to be explored

MERSEYSIDE, LIKE several other areas in the North of England which have seen the erosion of their economic bases, is looking to tourism as a method of fostering new jobs.

It is an objective which at first glance may appear optimistic given the area's urban dereliction and political strife. But these and other problems are only one aspect of the reality. Liverpool, once one of Britain's premier ports, boasts a wealth of 19th and early 20th century buildings; a collection of art galleries and museums virtually unrivalled outside the capital; and a wealthy hinterland, including the Wirral, with stately homes and attractive countryside.

Not least, it was the home of the Beatles — an attraction that has proved a magnet for fans for over 20 years—although the Beatles themselves have done little actively to help promote the industry which surrounds them.

"Our job is two-fold," says Mr Philip Carter, chairman of the newly-created Merseyside Tourist Board, a private sector body which was set up this year after the abolition of the County Council which formerly co-ordinated tourism activities. "First, we have to convince the *residents of Merseyside that* this is a logical area for tourism. Then we have to convince the rest of the world."

While the promotion of tourism on Merseyside *is* relatively new, the previous county council had made major efforts in investigating the potential and encouraging local initiatives. *This year, shortly* before its abolition, the authority, in association with the Merseyside Development Corporation, the Merseyside Arts Association and the EEC, published a report on tourism and the arts in the area.

According to the report, some 19m visitors went to Merseyside in 1985 of which 43 per cent described the intention of their trip as pleasure, 9 per cent as business and 48 per cent family reasons. The report estimated that some *13,700* jobs were dependent on these visitors who spent a total of £223m.

The numbers are impressive but have to be qualified by *the fact that only a small* number, some 1.8m, are higher spenders—the overnight visitor—since the vast majority are day-trippers.

The report makes no forecasts as to the potential of tourism. But the tone is optimistic, a belief shared by the tourist board and the local chamber of commerce which has just set up its own tourism committee.

"There will be real job creation both in jobs directly connected with tourism and in indirectly-related businesses," says Mr Keith Robinson, director of Liverpool Chamber of Commerce. "Of course, tourism will not be as significant as the port was, or the food industry. But it will absorb a significant number of the unemployed—particularly the young—people who feel there is no hope of a job."

Mr Robinson says initiatives concerning tourism have to be put into the perspective of a host of other activities which include trying to attract high-technology industries, the setting up of new small businesses and the increasing support by local councils of the business community.

No one area of action is a panacea for the area's difficulties, he believes, but all could make an impact on its economic health.

Co-ordinating initiatives in tourism is one of the main objectives of the *Merseyside* Tourist Board, which has an executive drawn from the local business community and fewer than 15 full-time employees.

With initial financial support from the Development Corporation, the board—which lacks the financial back-up of a public body — is currently seeking money from *the five district* councils. It is a tough task at a time of public spending cuts, with some authorities such as Liverpool traditionally not identifying tourism, or its infrastructure, as priorities.

The board, while keenly aware of the difficulties it faces, is plainly ambitious for its future role. It does not identify this as merely giving information about what tourist facilities already exist. Rather, it sees itself as both a co-ordinator and a catalyst, seeking private sector money to pump prime funding for tourist attractions.

It gives as an example the attraction of the recent Festival of Comedy, a two-week event in local theatres for which it donated £5,000 and assisted in raising £100,000 from local business sponsors.

The attraction for private investors to back schemes is still somewhat fraught. Transworld Leisure, a development company, this year abruptly pulled out of the Festival Gardens after going into receivership with losses of more than £2m on its theme park on the site—venue of the highly-successful 1984 International Garden Festival.

Similarly, the future of Beatle City, the privately-owned Beatle memorabilia museum, is still in question after its reversion to *its original owners, Radio City,* after Transworld went bankrupt. Radio City, the local commercial radio station, is currently examining methods of financing the museum — currently open only in the afternoons — and even considering moving it out of *Liverpool,* where it is sited slightly off the beaten track.

"*We will obviously still* get fans visiting *Liverpool* should the museum move away," says Miss Pam Wiltshire, head of research and development at *Merseyside Tourist Board*. "But it is advantageous to have a proper and permanent attraction like the museum."

The festival gardens have *now reverted to* the Development Corporation which has stated it will be opening the festival hall and the theme park next summer. Dr John Richie, chief executive of the Development Corporation, says the Transworld experience has not led to pessimism over the commercial future of the site. It had demonstrated that the idea of a thema park was good but that perhaps the market had been pitched too high at more than 1m people.

"We could," he says, "have a thema park aimed at around ½m visitors with the site being complemented by all the other activities that are being developed along the waterfront."

The centrepiece in this major development is the refurbished Albert Dock, whose old warehouse has the largest collection of Grada 1 listed buildings in Britain. It boasts a museum, small boutiques — some offering knick-knacks, other expensive hand-crafted furnishings — and open-air activities. Thousands throng the pavements of this attractive development, to buy or simply browse and stare.

Arrowcroft, the London Property Company which is developing the site in conjunction with the Development Corporation, gives an average spend per visitor of more than £10 and says there have been few business failures among the 50 retail tenants which currently occupy the docks.

Arrowcroft is also convinced that the shops in the dock are not simply pulling trade away from the nearby city centre. "We have definitely pulled new business into the area," says Mr Rupert Jorrison, *development director* of Albert Dock.

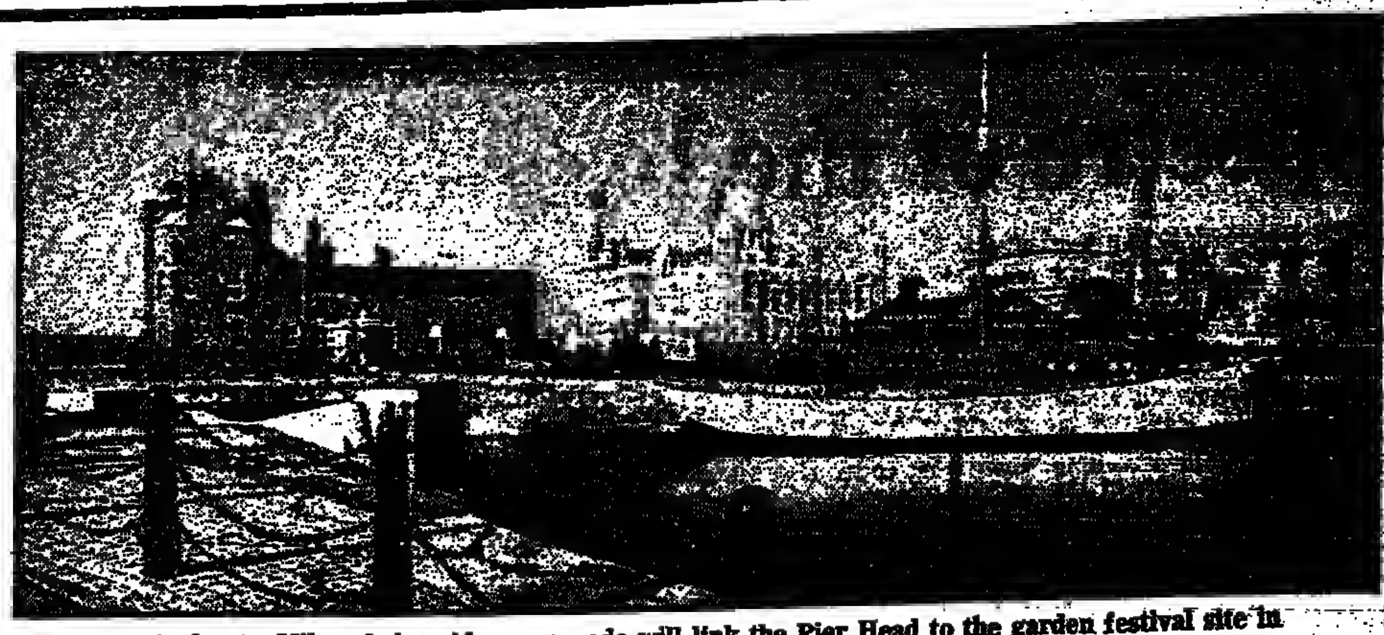
"The shops in the dock are very different to the city centre shops of Liverpool. They are complementary to those elsewhere in the city and we are increasing the wealth of the area.

"This dock is very much part of the regeneration of Liverpool. At present we are attracting 2m visitors a year and we reckon by 1988 that will rise to 4m. That would make us the largest tourist attraction in Europe."

According to Dr Richie, the higher spending weekend break visitor will be attracted in the future to the plethora of activities contained in the dock—including The Tate, a sister gallery to that in the south—and the developments such as the ice rinks in the immediate vicinity.

Armed with an infectious enthusiasm, Dr Richie says: "We are looking for a balanced package of activities for a market in excess of 4m visitors a year. That is a big economic multiplier which we believe is achievable by the early 1990s."

Lisa Wood



The new waterfront. Miles of riverside promenade will link the Pier Head to the garden festival site in South Liverpool

Albert Dock

Centrepiece of leisure facilities

"I THINK the Albert is fantastic," says *Liverpudlian* Mrs Agnes O'Toole, who is retired. "I can spend up to five hours here on a nice day.

"There's something for everybody. Shops for the fashion conscious, plenty of things to explore including the museum, and on a sunny day it's lovely to just sit and look at the boats. Mind you, some of the prices are too expensive for local people."

Mrs O'Toole was describing the rehabilitated Albert Dock, whose decay, a decade ago, was one of the most dramatic reminders of Liverpool's fall from its mercantile splendour and wealth.

Today the dock, with its five ranges of massive arched brick warehouses surrounding the basin—which comprises the largest collection of Grade 1 listed buildings in Britain—is the centrepiece of what its developers hope will be one of the country's biggest leisure centres.

The rehabilitation of the Albert Dock has come about in a major collaboration between the public and private sectors. The Merseyside Development Corporation took over the dock—*in* partnership with Arrowcroft, the London-based developer—as part of a tourism and leisure strategy it adopted in the light of the successful International Garden Festival.

"It is all part of the regeneration strategy for Merseyside," said Dr John Richie, chief executive of the MDC. "We suddenly realised with the International Garden Festival that if we could offer good-quality attractions we could tap a catchment of 13m people within one hour's drive of the area."

The MDC has been responsible for infrastructure projects—such as dredging the dock and putting in services—to a tune of £128m while the MDC has so far invested £14m in interior fittings, with a further £12m currently committed for various new projects. In total it is expected that more than £100m will be invested in the project.

The uses of the buildings are mixed. When completed they will house 460,000 sq ft of offices, 252,000 sq ft of museum and gallery space (including the Northern Tate) 357,000 sq ft of shops and cafés and 120 luxury flats which will sell at between £135,000 and £190,000.

The vastness of the project is illustrated by the fact that the square footage, more than 1.2m, is about four times that of the St Katherine's Dock in London. Arrowsmith is now investigating the possibility of a conference and exhibition centre to be housed in the docks as well as a top-quality hotel.

Mr Leonard Eppel, chairman of Arrowsmith, who has a warm affection for the docks, is bullish about the prospects. "The Maritime Museum and the Tate will alone attract 1m visitors a year," he said.

"But you have to look at Albert Dock as a catalyst in what are major plans for leisure developments on Merseyside. These will include the aquarium, the ice rink and a Multi-Flex cinema. We see the area as a playground serving the whole North West region," he added.

Many of the projects are interdependent. At present most visitors to the docks—and to Merseyside—are day-trippers. For tourism to make a big impact on the local economy longer-staying visitors are needed, with the development of a weekend break market. The provision of packages of activities is foreseen with accommodation available both in Liverpool and neighbouring towns such as Stockport.

But it is envisaged that as numbers build up there could be a call for a four-star hotel in the immediate area, with the Albert Dock providing a suitable site.

It is questionable whether well-paid people living in the North West would at present envisage spending a weekend in Liverpool. As Mrs O'Toole said, gazing from Albert Dock towards the inner city: "You can see from here two magnificent cathedrals. But will people want to go there after visiting the dock. At present they probably fear they will be mugged on the way."

The Albert dock is already attracting visitors in their thousands. While the unemployed or the retired, like Mrs O'Toole, may come mainly to potter around, the traders are reporting good business. According to Mr Eppel many are starter businesses with rents reflecting the initial pioneering element in the Centre. Increasingly, more established retailers, such as Edinburgh Woollen Mill, are setting up on the malls.

Mr Alan Newton and his wife Lyn have a stall in one of the malls where they sell their own attractive stoneware pottery. Mr *Newton* gave up working full-time as a teacher to start the enterprise with the assistance of the Government enterprise scheme. "We are getting on fine," he said. "Business can only get better because the dock is not finished yet."

Mr Eric Lowe has a shop selling hand-made imported tiles, oriental rugs and unusual ornaments. "The developers pitched the rents at the right rate," said Mr Lowe. "They were attractive enough for people like me to take a chance, although they will probably go up at the end of the three-year licensing period."

The business was initially his wife's activity, he said, but now he had sold his restaurant and was concentrating on the shop. "Turnover is increasing and we are making a living," he added.

Mr Lowe said shoppers appeared to feel safe in the dock area. "The vandalism, graffiti and rowdyism you see in town just does not seem to occur here." Of his customers he said: "We are getting people from further afield who have made a special trip to Liverpool to visit the Albert Dock."

It is estimated that last year 2m people visited the dock.

Lisa Wood

Philip Carter: he heads the private sector push as chairman of the new Merseyside Tourist Board

Energetic force in local economy

Profile: Philip Carter

MR PHILIP CARTER, CBE, chairman of Everton Football Club, President of the Football League and chairman of Liverpool Conservative Association, is a man with a finger in many local pies.

After 40 years with Merseyside-based Littlewoods Organisation, of which he was managing director between 1976-83, Mr Carter, 59, has energetically thrown himself into the wider political and economic life of Merseyside.

He lists his interests in Who's Who as football, squash, music and theatre and his activities include being vice chairman of the Empire Trust, Liverpool, a member of Merseyside Development Corporation and chairman of Merseyside Tourist Board.

He retired from Littlewoods, the largest privately-owned company in Britain, in 1983, a 40-year career that had started as a management trainee at the age of 16. He left the business at the end of an 18-month period of dramatic changes in management style in the company after it had been run on a tight family rein for over 50 years by Sir John Moores.

During that period Mr Carter played an increasing role in industry concerns and his appointments included the chairmanship of the Man Made Sector Working Party, the Distributive Trades Economic Development Committee and the NEDO Joint Textile Committee.

"All that has happened now," says Mr Carter, "is that I am in a better position to spend more time developing this sort of involvement. I could not have done it if I was running a large organisation like Littlewoods."

Not that he sees himself as a political animal, preferring to describe himself as a manager and organiser. Not, he says, that managing employees in a business such as Littlewoods is the same as dealing with footballers or politicians.

He has no blueprint for the regeneration of Liverpool but says: "We, the local community and the business community, have to start projecting the positive side of Merseyside to national government." In true Tory style he emphasises the need for self-help on Merseyside, expressing the belief that central Government would look more favourably on the area if it perceived the local community was trying to pick itself up.

"In spite of the problems of rate capping," says Mr Carter, "an incredible amount of money has come into this area. The questions are how it is used and managed." Co-ordination of effort, says Mr Carter, is critical. Playing an active part in the management of that co-ordination is the role Mr Carter has identified for himself.

As a member of Liverpool Conservative Association and a businessman Mr Carter, like many of his peers, has been allowed little local public voice in the determination of Liverpool's public image. However, all the indications are that in the wake of the appeal to the Merseyside business community by Mr Michael Heseltine, the former Environment Minister, their voice and role may become more apparent.

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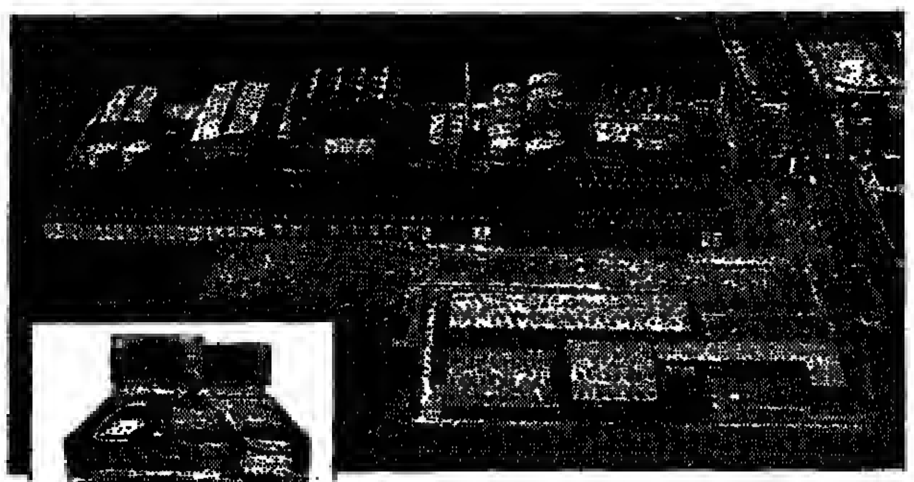
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Higher education

Strong spirit of co-operation

LURKING BEHIND a business proposition from the University of Liverpool may well be the man from ULTRA. One of the commercial world's better acronyms belongs to the University of Liverpool Technological Research and Advisory Services, a company which markets academic facilities and resources.

Not far away is the office of POLYCAM at Liverpool Polytechnic, with e similar role to make the city's higher educational resources part of the industrial and commercial community.

While elsewhere in Britain university and polytechnic might vie for the plum contracts and courses there is a spirit of co-operation between the two which makes the academic resource in the city more effective.

Much of tha impetus for this joint assault nn Liverpool's problems has come from the new blood at the head of both institutions. Dr Graema Davies has been Vice-Chancellor at Liverpool for only six months. Peter Toyne has been rector at the polytechnic since august.

"We both get on like a house on fire," says Mr Toyne. "We both agree that there is no point going our separate ways whila it is sensible to collaborate."

This collaboration is typical of the spirit of co-operation which has grown out of the problems of Liverpool: its industrial decline and its search for new industrial growth.

These two institutions have many lines of assistance extending into Liverpool. They are major employers of teaching and edministretive staff, the apending of their etudents and staff mean business to the city, many of their graduates want to find work in tha local economy, their computer, leboratory or consultancy fecilities are accessible to local businesses and their halls of residence function as inexpensive hotels during the holiday season.

Finally the university and the polytechnic are showing an increasingly commercial stance and both feed new companies and industrial resources into the community.

The city, for its part, ie ready to respond to thie with the innovation centre drawing on the ecademic support to help new companies and the Wevertree Technology Park acting as a science park for both tha university and the poly.

Local companies too heve responded. Between 200 and 300 businessmen attended an open day at the Poly's computing department, helping build up a big orderbook for consultancy services. Many local managers ettend extension courses in business administration.

Progress can also be measured in terms of the local and private sector contributions to these higher education bodies. Soma 10 per cent of the funding of over £1m comes from local sources et the Poly while the University has doubled its income in research grants in three yeers.

The University has redrawn its timetables to suit a growing number of part-time, mature students.

The poly boasts the first industry professor in the UK in Prof Peter Jost whose lectures tackle the gamut of industrial themes. Over 2,000 students are enrolled in sandwich coursee spreading their studies over several years to fit in with their full-time jobs.

Liverpool's economy can hardly want for resources from higher education to edvise and assist industry, but both institutions are also having an increasing impact on the city through companies or projects which are direct spin-offs.

This is where ULTRA and POLYCAM come in. Both bope to sell the services of the university and polytechnic and help companies spin off on their own.

Medusa is one of six companies in the ULTRA portfolio. It markets the energy management systems of the University. The service has grown out of the university's own success in saving something like £2.8m in fuel bills since 1980. Under Gordon Hunter, the director of building services and head of Medusa, computers have been used to control the various eources of beat and power throughout the sprawling campus.

Medusa now hopes to market its computer-based resources to the industrial market. Companies would be able to feed energy data into the university's computer for a regular update on the most efficient usa of fuel and power.

A successful collaboration with the local industry in 1983 saw the university'e department of organic chemistry and Rentokil win the Queen'e Award for Technological Achievement. Between them they devised a new way of making arsenic acid for use in timber preservatives.

Dr Tony Jones developed trimethylgallium, a chemical used to make semiconductors in the department of physical and industrial chemistry and formed his own company Epichem, to market the product.

This month Prof Davies formally opens the new factory of Powell and Scholefield, a biotechnology company at the Wavertree Technology Park, aboot a mile from the University.

A group of scientists from the department of microbiology, led by Dr John Saunders, colleborates with a subsidiary of Powell and Scholefield in the developmeot of new products for the microbiology industry.

Mark Meredith

Liverpool University's new vice-chancellor, Prof Graeme Davies, has brought an entrepreneurial air with him to the job. The university precinct is only a few hundred yards from the site of the 1981 Toxteth riots and is at the heart of the city community. In the background is the conserved Georgian splendour of Abercromby Square

Creed of accessibility

Profile:

Prof. Graeme Davies

"IN THE very recent past there has been a gathering recognition that the university should play e more significant role locally and regionally. This has now become a very central part of our policy."

It was a gentle admission by Prof Graeme Davies, the new vice-chancellor of Liverpool University, that there is no place for an academic ivory tower in a socially and industrially troubled city like Liverpool.

This centre of learning has also learned something from the severe problems of Merseyside. Prof Davies is spreading the word that his university today is accessible to the community in generating new industry and taking a more active role in business itself.

There are some highly practical considerations behind this greater involvement with Merseyside. The university suffered from the poor publicity which Liverpool received following the Toxteth riots in 1981 and again from the political wrangling between Liverpool City Council and central government over spending.

Applications from students dropped dramatically following Toxteth. Then followed the political fall out. "We had people inquiring whether we were funded by the local authority and whether we were viable. This had a very marked effect and we had a substantial drop in the number of applications this year."

In setting about making the point that the university is independent of local government financial support, Prof Davies was also having to fight hard to win back national and international confidence in his university.

Previously links with the city and the surrounding area had been on a personal basis. But under Prof Davies' predecessor, Acting Vice-Chancellor Prof Fred Norbury, greater industrial involvement in the community started to become more e matter of university policy.

It may have taken an outsider like Prof Davies to recognise these problems. He is a New Zealander but with a long academic career in Britain. Five years at Cambridge were followed by eight years as Professor of Metallurgy at Sheffield.

"The university has grown out of the community, and been founded by local citizens. As with other universities, our role are shifting and becoming less national and more regional.

The demand is determined by the needs of the region."

These needs have had a greater impact on a university like Liverpool than a university in the more prosperous south-east, he feels.

The changes internally have come not so much in the curriculum but in the kind of student the university wanted to attract. Links with colleges of further education in the region were established and classes opened for mature students and students from non-conventional backgrounds.

Prof Davies is pleased with the community service offered by the university's faculty of veterinary science in outlying areas.

Greater industrial involvement has taken two forms: the formation of a campus-based company to market the university's resources, and using the nearby Wavertree Technology Park as a ready-made science park where projects can move from the laboratory to a factory floor for commercial development.

Making profitable contacts with industry have become that much more vital considering the 15 per cent drop in income from the University Grants Committee allocation over the last five years. Five per cent of income will be lost this year alone and more is due to be lost from central government funding.

Today 19 per cent of the university budget comes from research centres and contracts from industry for services and the use of university facilities.

"We have a very big capital resource, a lot of equipment which means we can make it available to developing groups, small and big companies. From their point of view they do not have to invest in capital project but just to consider us as a physical resource.

"Secondly we have a considerable number of highly skilled graduates within the organisation for industry to draw on," Prof Davies observes.

The third role comes from the graduates who stay in Liverpool after their studies. Prof Davies has found that students who might have nursed anxieties about studying at Liverpool often stay in the city to take up their first job on graduation. Something like a quarter of graduates stay in Merseyside.

"Many come with a misconception of the city and the region. They find an extremely pleasant environment with a high reputation for hospitability," he says.

Mark Meredith

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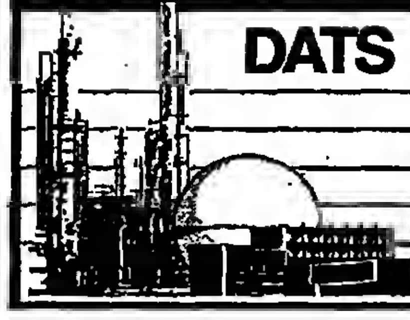

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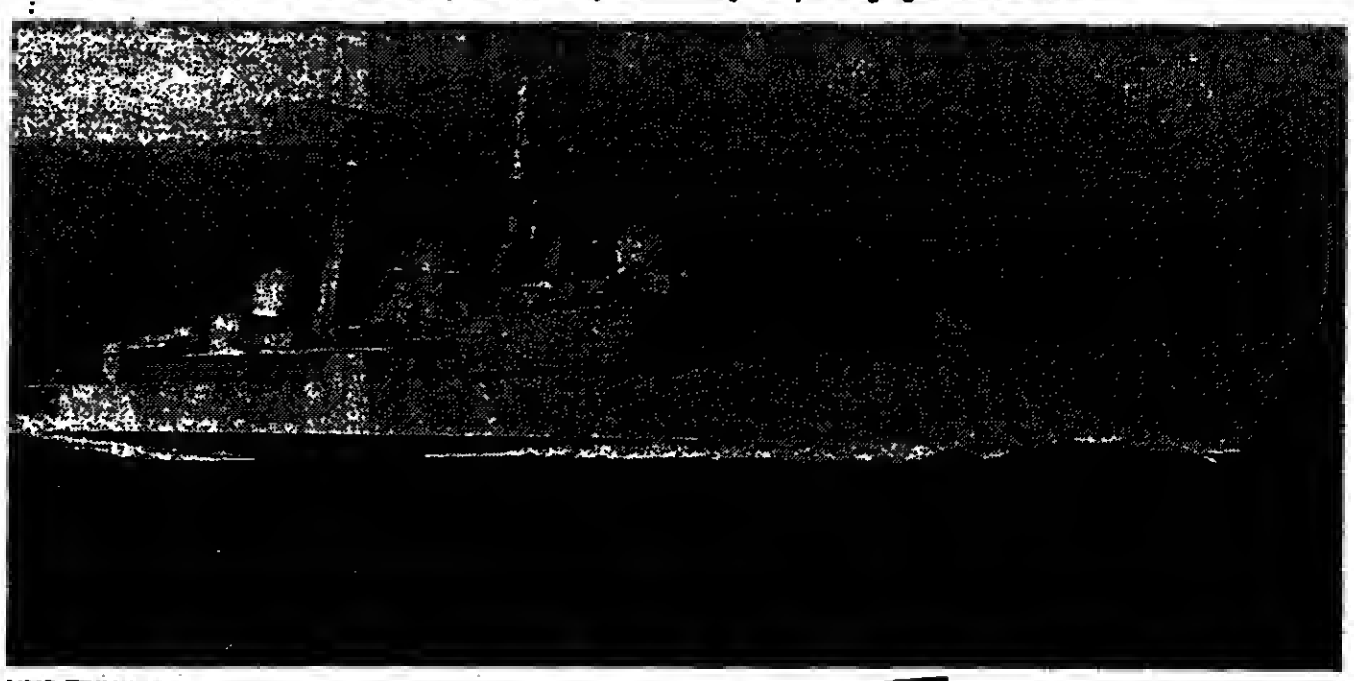

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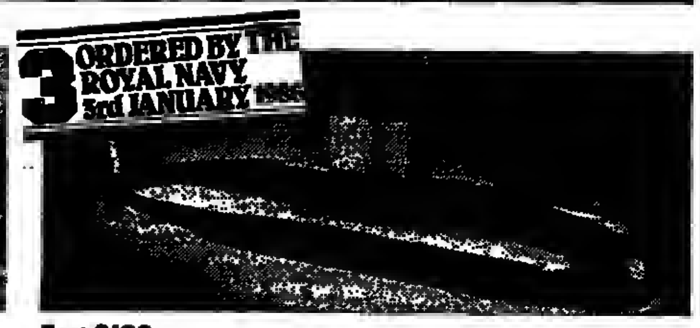

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Mersey Barrage

Further studies bring decision closer

BARRING THE discovery of presently unlikely risks, a final decision to build a £450m Mersey barrage will probably be taken next year. Last month the Government matched more than £400,000 of private-sector money for final feasibility studies that will clear up the few remaining doubts.

The barrage — in effect, a giant dam across the Mersey—would have sluices to let in the flowing tide. The ebbing tide would then be diverted through turbines to produce £1m-worth of electricity per week, or about half of 1 per cent of national demand.

That is the barrage's economic justification, guaranteeing a satisfactory long-term return. More important short term, however, is that at least 5,000 jobs would be generated locally over seven years in building it.

Indeed, Mr Des Pitcher, chairman of the Mersey Barrage Company, says that very many more would ensue. Big engineering projects produce their own multiplier effect in the jobs market — between three and four in cases like this, where a great deal of steel fabrication work would be done off-site. So up to 20,000 jobs would be at stake in construction.

Even more are involved if the wider implications of the barrage are considered. The Mersey is a very difficult river to live with; its basin sweeps from Liverpool to the far side of Manchester, taking in south Lancashire and north Cheshire on the way.

More than 1,000 miles of waterways drain into it. The result is a huge mass of weter flowing through Merseyside at great speed. It is impossible to launch small boats, for example, so except for larger-engined vessels, the Mersey is virtually unusable.

But only the top half of the 30 ft Mersey tide would be used by the barrage, so e vast, permanent lake of half-tide depth would be created npriver. The effect would be to stabilise and tame the Mersey. The lake would run past Widnes and Runcorn towards Warrington.

This would create unparalleled opportunities for waterside developments and the establishment of a water-based leisure industry for the whole region. Moreover, since the lake would be in the middle of a conurbetion, its market would be on its doorstep.

No one has put a figure on the scale and permanence of job-creation here, nor on the likely effect on land and property prices by the waterside, but it does not need much imagination to grasp the possibilities.

The barrage would also transform the port of Liverpool, which is a series of enclosed docks entered through locks. Taming the Mersey would obviate the need for these docks to stay enclosed.

Ships would go through the barrage via locks but once inside would have only a half-tide range to contend with so could tie up and operate virtually anywhere. Reduced port charges and increesed competitiveness and trade would be likely.

Given the scale of the hope thet the barrage holds, some *may find it hard to believe ther* the project is extremely lucky to have survived thus far. It was mooted five years ago by the Merseyside Enterprise Forum, e sounding board of business opinion set up by the *now-abolished* Merseyside County Council.

The suggestion came from Mr James Fitzpatrick, chairman of the Mersey Docks and Harbour Company, and was investigated by a sub-committee chaired by Mr David Boult, then a director of BICC at Prescot, later to take over the job of running the community *of St Helens Trust, Britain's* pioneering, job-creating enterprise agency.

This encouraged the county council to pay for studies by Marinetech North West, a con*sortium of academics in univer*sities and other institutions in the region. But since this suggested a rate of return of only 5 per cent, the project nearly died because this was not regarded as enough by the Central Electricity Generating Board — the barrage's only likely "*customer*."

The county council, with all-party epproval set out to force the issue by improving the rate of return.

With money wrung from the European Community, Marinetech got to work with Rendel-Parkman, an engineering consultancy formed especially for the purpose by Rendel Palmer Tritton and Ward Ashcroft Parkman. The CEGB lent technical assistance as did the Atomic Energy Research Establishment.

The result, published in February, was a revelation. The rate of return would be transformed to 7 or 8 per cent not only by refinements to turbine positioning and design to yield more power, but also by using new civil engineering techniques to build the barrage at much lower costs than previously envisaged.

The new techniques would use redundant supertankers as moveable coffer dams, sinking them to build one section and then refloating them to advance bit by bit across the river. Diaphragm walling techniques would enable each section to be built in an island of sand poured into the space between the supertankers.

Since then the CEGB has come up with a way of improving the rate of return even more, using *off-peak electricity* to reverse the turbines and pump more water through when the tide is coming in. This would raise the head of water available for power generation et peak tariffs by a couple of feet, adding abont 10 per cent to likely revenues.

The barrage survived the abolition of the county council at the end of March when Mr Peter Wood, the county's planning officer, successfully organised a race against time to privatise the whole project, of which he is now chief executive. Ward Ashcroft and Parkman has housed him in its offices in the Cunard *Building* at Liverpool Pier Head.

Companies and other bodies rushed to take shares costing up to £44,500 each. The list is impressive: Allied Steel and Wire, Barclays, *Blue* Circle Cement, Cammell Laird, Costain, Littlewoods, Liverpool University, Mersey Docks, Northern Engineering Industries, Ocean Marine, the River Pilots *Association, Edmund* L. Rothschild, Royal Insurance, RTZ Cement, Shell, Tarmac, Trinity International Holdings, Liverpool Daily Post and Echo and the Merseyside and North Wales Electricity Board.

Private sector support has now passed the £500,000 mark. There is a risk, but the chances of a decision to go ahead are high. So then would be the rewards, not least for Merseyside's economy.

Ian Hamilton Fazey

Impact of an assertive leader

Profile: Des Pitcher

THOUGH HE may feel embarrassed by these words, Mr Des Pitcher is emerging as the single most important business leader on Merseyside.

His commitment is massive: he is chief executive of the Littlewoods Organisation and chairman of the newly-formed and vital Mersey Barrage Company (MBC). In his last job, his was the voice and leadership that kept Plessey in Liverpool.

The mantle of most important business leader used to be worn by Sir Leslie Young when chief executive of the Bibby group. He was picked by Mr Michael *Heseltine to be founding chair*man of the Merseyside Development Corporation, providing the private sector push needed for the spectacular success of the 1984 International Garden Festival.

But since he retired into the chairmanship of British Waterways and started applying his talents on a nationwide basis—and notwithstanding the contributions of other senior managers in the area—he has been missed locally.

Mr Pitcher has found himself filling the gap. He is doing so assertively but modestly. People who knew him at previous stages of his high-flying career have no doubts ebout his likely impact. "Impressive and very competent," and "gets things done" were the sort of phrases used by one senior City figure who worked in the US with him years ago at Sperry Corporation.

He is rated highly too by Mr John Clement, chief executive of the dairy foods group, Unigate. Two years ago Mr Clement was persuaded to become non-executive chairman of Littlewoods. He says he would not have taken the post had *he not* been confident in the choice *of* Mr Pitcher as chief by Sir John Moores, Littlewoods' founder.

Why Mr Pitcher is ideal for Merseyside is that he was born and grew up in Old Swan, Liverpool, and therefore has a native's affection and understanding for the place.

He says: "If I am the successor to Leslie Young, it has been thrust upon me. I *just* want to do something that will help people understand this place as it is. I have a commitment to this company and this city. People outside see Merseyside as a cross between Hiroshima and Gdansk. They have been *badly misinformed*."

Mr Pitcher is 51, the age at which his father suffered financial calamities from which be never recovered. It taught the young Desmond something about business failures and backing winners. George Pitcher was a film producer and had his share of both of them. Succeeding with "The Road to Hong Kong" and "Genevieve," but suffering badly with "The Vikings" and "Cleopatra."

By then, Mr Pitcher had taken en electronics course et the forerunner of Liverpool Polytechnic and left for two years of postgraduate work on computers in Switzerland. He ended up with the Sperry Corporation but reached a watershed in 1973: he had either to opt for US citizenship and advance his career there, or come home.

He became managing director of Leyland Truck and Bus under Lord Ryder but was recruited *to run Plessey Tele*communications in 1978. He soon found himself in a minority of one in wanting to rebuild the company's factory in Edge Lane, Liverpool. The rest of the board favoured withdrawal — until he was able to prove that the cost of closure would be too much for company to afford.

The Government helped him with grants for refurbishment and re-equipment that enabled the factory to be saved, though with only half the workforce. Local knowledge helped him with some tricky labour problems, so that be was able to be very tough at the right psychological moment, winning respect and, ultimately, the argument.

The ection was instrumental in eventually turning e £20m Plessey performance into £200m one. The *company's share* price rose over five years from 60p to 750p. The question was where Plessey — and Mr Pitcher — would go from there. "In 1983 I was so disappointed et what I sew as Plessey's lack of expansion plans that it was certain I would not be staying much longer," he says.

So when he was offered the *Littlewoods* job, he leapt at it. He had never worked in the company's main sectors — clothing, mail order and retail shopping — but, as Sir Leslie Young always puts it, pound notes are the same whether you are making cars or chemicals. In any event he does know computers — and Littlewoods' computerised operations dwarf those of even the clearing banks.

He and Littlewoods fit the Heseltine model of community involvement. Littlewoods employs 35,000 nationally; 14,000 on Merseyside and 8,000 in Liverpool city centre. He says: "It's self-interest. We are here for life and there is no question of us leaving. We want the whole area to make the best of itself because that is good for all of us."

Thus he has refused to take office in trade associations and the like, leaving that to divisional managing directors. Instead, what little time he has spare in available for the Mersey Barrage Comany and for attracting investment to the region.

Thus last year he brought 12 foreign manufacturers to Merseyside to discuss the prospects of setting up there. He refused to be put off by the concurrent Liverpool budget crisis, when the Labour-led city council tried to make all its 30,000 employees redundant to balance the books.

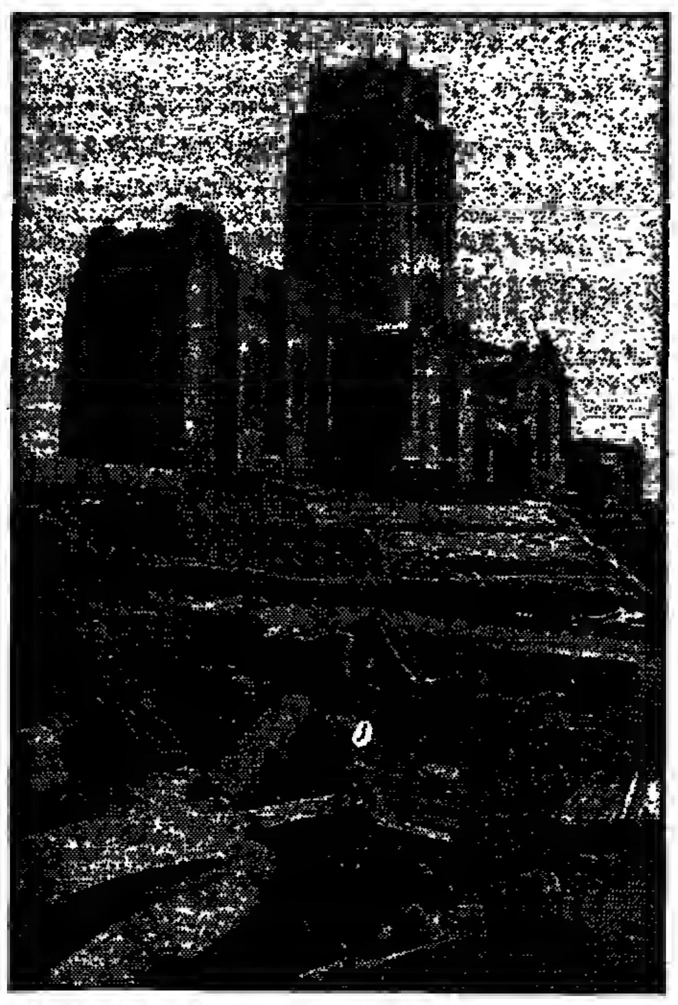
In March the effort paid off when the Yangtsekiang Garment Manufacturing Company, one of Hong Kong's largest, decided to open a factory on Merseyside employing 300 people. Orders from Littlewoods will reduce YGM's initial downside risk. Mr Pitcher believes that others will follow, especially from Hong Kong as reintegration of the colony into China comes nearer.

Meanwhile, Littlewoods itself has been becoming more profitable under his leadership. Its direct support for community projects such as the local ITEC—Information Technology Education Centre—has been significant at £30,000 a year. There is also support for the arts and the new Tate Gallery, part of a tradition of patronage encouraged by Sir John Moores.

The role of Mr Pitcher—and Littlewoods—in the regeneration of Merseyside looks certain to be both central and exemplary. He is the region's most important business leader whether he likes it or not.

Ian Hamilton Fazey

Mr Des Pitcher in his Littlewoods office. The computers are second nature to someone of his background



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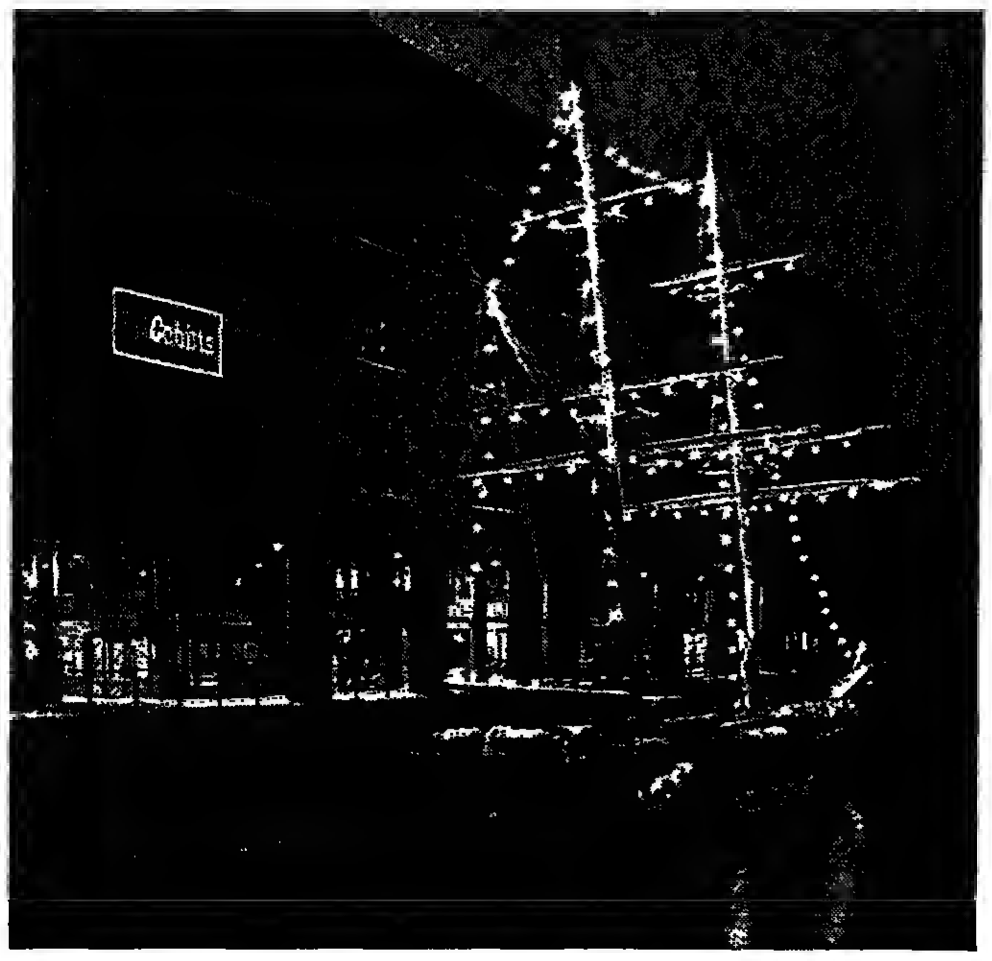

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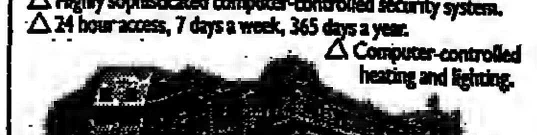

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Stanton Fuller, chief executive of Wavertree Technology Park. Behind is the futuristic building housing the park's first tenant, Plessey Crypto, maker of encoding equipment

Wavertree Technology Park

Jolted into creative thinking

SOME 500 jobs in 20 companies at Wavertree Technology Park close to the city centre will not make much of a dent in Liverpool's roll of unemployed, currently numbering 106,045 or 20.6 per cent of the workforce. Neither will it replace lost manufacturing capacity.

The park serves to show, however, that electronics and biotechnology companies can and will move into a once industrially blighted area given the right conditions.

This, in turn, encourages similar companies to join them, invites co-operation and business from industrial and academic institutions nearby, and activates the interplay of ideas and opportunities which will be vital to improving the city's economy.

It also shows a determination among Liverpool's own entrepreneurs to make a go of high technology in the city.

It took the violence of Toxteth to jolt central and local government, as well as one of Liverpool's main employers, Plessey, into some joint creative thinking about how to set the scene for sunrise industries.

They formed the Wavertree Technology Park company in 1982 to transform 64 acres of former railway siding into something promising.

It has cost £10m and it seems to have worked. Some 110,000 sq ft of factory space is virtually full, and another 27,000 sq ft, partly bespoke, is under construction.

A 12-year plan foresees 500,000 sq ft of factory accommodation in the park fostering possibly 2,000 workplaces.

"What Liverpool needed was the appropriate infrastructure, a specific development that would not be just another industrial park," says Stanton Fuller, the Chief Executive of the park's small management team.

What makes Wavertree different is the filter he puts on companies applying to enter the park, so as to keep the tenants in the high technology areas. A second difference lies in the resources offered by Plessey which acts as a large benefactor to the tidy group of factory units in its shadow.

The park has emerged out of fundamental changes within Plessey which once employed about 15,000 people in Liverpool and surrounding area, it producing electromechanical telecommunications equipment such as telephone exchanges and switching equipment.

Only 4,000 jobs remain at Plessey after a long and painful transition to the production of digital - based telecommunications and office equipment. The large, refurbished Plessey factory produces its digital telecommunications switching system, system X, along with the public telephone equipment found at most updated call boxes in the UK.

Plessey has been an essential ingredient in Wavertree Technology Park. Its presence was to act as a magnet for small electronics companies and its facilities were to provide these companies with start-up assistance such as finance, accounting, personnel management or product development.

The company seconded the former northeast regional director of Plessey Telecommunications—Stanton Fuller—to run the park.

And Plessey is also the biggest tenant on the park having moved its Plessey Crypto subsidiary into a new factory at Wavertree. Crypto produce military and commercial encyphering equipment.

Plessey's presence also supports the park infrastructure. A modern courtyard of shops, houses, the medical and dental centres for Plessey workers, and these facilities are also made available to other companies at Wavertree. A restaurant doubles as a dining-out spot for visitors to Plessey while providing dining facilities to the park's tenants. There is also a branch of the Midland Bank.

Plessey in practice has not had to act as mother hen to the new companies and its resources have not so far been extensively tapped.

Any advice and hand-holding for new companies has usually involved the park's management handing out directions on how to apply for various packages of government assistance available for Wavertree.

Assistance includes regional development grants of up to 15 per cent of capital expenditure or £3,000 for each new job created.

Discretionary grants and project grants are available as well as training assistance.

This part of Liverpool was designated for Special Development Aid providing possibly 50 per cent assistance with building costs, 12 per cent land acquisition costs and sometimes 12 per cent of plant and machinery costs. Rent grants can be obtained for up to two years.

Rents at Wavertree are not cheap at between £3.50 to £4.00 per sq ft, about twice the going rate for older accommodation in Liverpool.

The demanding rent levels reflect the high quality standards and are partly compensated for by three month break clauses in tenancies which prevent new companies feeling locked into long term accommodation.

Rates are a bigger problem and can represent a disincentive for inward investment. Liverpool ranks third out of 36 metropolitan county and district councils in terms of rates levied on the pound.

The highly-charged politics of Liverpool in its battles with central government over expenditure have been a further factor which has worried those contemplating a move to the area.

Stanton Fuller feels that Wavertree can help to improve Liverpool's image, encouraging mobile foreign companies to take a second look at the city.

One key component which high technology companies look for is a research environment in which co-operation with other similar enterprises can take place.

Plessey's main telecommunications plant is largely a manufacturing centre rather than a production research centre so the technological spin off to tenants of Wavertree is limited.

Liverpool University is only one mile away, however, and it will shortly start to plug this technology gap. The University's newly-created Ultra company, set up to market academic intellectual property, has already had one success.

Scientists from the University's Department of Microbiology have collaborated with Powell and Scholefield, a biotechnology company at Wavertree, in the development of specialist nutritional products.

Wavertree will in future function as a ready-made science park for Liverpool University. Small companies may be set up by Ultra to marry the academic resources of the university to the business infrastructure support of the Technology Park.

Powell and Scholefield itself have built up a turnover in its products for molecular biology, nutrition and brewing amounting to £3m, with £300,000 spent annually on research and development.

Technology transfer at an informal level is also taking place at the park. Companies which might not have known about each other in anonymous office blocks or less sociable city centre sites, are able to mix more freely at Wavertree. Managers strike up friendships and do business with each other.

For example, Mike Price who makes software for the construction industry from his SD Micro company and Frank Coward of Victor Technologies, a computer consultancy, have passed work back and forth to each other.

"I am a Merseysider so I have a vested interest in seeing things develop," says Coward.

"Some of the apparent disadvantages have become advantages. People think because it is a Liverpool address, it cannot be as successful as a London address or a Manchester address. People sometimes are struck by the novelty of it. We have some large accounts in London who find it extraordinary that they deal with a company in Liverpool."

Michael Price also wanted to stay in Merseyside. A tip-off from his sister who works at Plessey Crypto diverted him from a plan to move to Warrington.

Other tenants at Wavertree include Forewessen, test systems makers, which was formed by three ex-Plessey engineers, Brain Boxes which produce electronic interfaces, Assendal engineering consultant and Honeywell Shield, part of the British subsidiary of Honeywell of the US.

Mark Meredith

This silicon chip gripped in the jaws of an ant (magnified × 20, Philips electron microscope) may soon be superseded by high speed devices such as those under development at the University of Liverpool, in our departments of Metallurgy, and Materials Science, and Electrical Engineering and Electronics.

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QUEEN'S AWARD FOR TECHNOLOGICAL ACHIEVEMENT

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Youth training

Link with regional development

UNEMPLOYMENT leaves many people on Merseyside with no alternative but to seek places on training schemes and other special measures.

But increasing efforts are being made to shape training programmes so that they link with the region's economic needs, and make a positive contribution to job creation and new business development.

The abolition of Merseyside County Council in the spring cast uncertainty over the future of Merseyside Education and Training Enterprise (METEL), a training project which has expanded fast since the county council established it four years ago, and has become a familiar institution on Merseyside.

But the continuation of METEL has been assured, with the Merseyside Development Corporation and Business in Liverpool, the city's enterprise agency, taking over responsibility for it.

METEL was set up to offer skills training to unemployed young people, and has since expanded its scope to include unemployed adults and to offer enterprise training for people considering starting their own businesses.

The organisation now has a staff of more than 100, and a current annual budget of £2.1m in funds from public, private and EEC sources. It offers 2,500 training opportunities a year in construction, commercial, catering, computer and other skills for the unemployed.

This month, supported by the Manpower Services Commission, it has launched a new open learning programme to make its training services as flexible and widely available as possible.

In addition, enterprise training is offered to more than 1,000 people a year who have new business ideas. Strict and critical appraisal by tutors means that only about one in four of the proposed businesses is actually established. But 70 per cent of those which were founded three years ago are still running.

Since the development corporation and Business in Liverpool became responsible for METEL, its board has been reconstituted and there is an increased concentration on ensuring that the type of training offered is likely to lead to jobs.

Dr John Ritchie, chief executive of the development corporation, has become chairman of METEL. He regards the corporation's support for training initiatives on Merseyside as

Youth training with a purpose at the former Western Ship Repairers yard, Birkenhead

crucially linked to its industrial development activities.

"We are refurbishing small business units in the old dock areas and we need small businesses to fill them. The corporation has not turned its back on inward investment — of course we need it. But you cannot adopt the same approach to business creation in the inner city as you can in a new town.

"We know that a lot of our new businesses have got to be established and nurtured from within Merseyside. This means giving people the right skills and the training needed to run a business."

The link between the corporation's business development and training activities is illustrated in its support for Co-operative Development Services, a charitable training organisation in Liverpool.

The corporation has begun converting 30,000 sq ft of an old transit shed in East Toxteth to provide a 6,000 sq ft training workshop, with the remainder of the space housing small commercial units.

Local people with new business ideas will be able to try them out in the training workshop, while receiving instruction in the skills needed to run a business.

If the ideas lead to new businesses being established they will be set up in the adjoining commercial units — where the new businessmen and women will still be able to turn to training workshop staff for advice — until the companies are strong enough to move into the outside world.

Another imaginative project, the Monks Ferry Training Trust, has taken over a former British Shipbuilders training yard in Birkenhead, with the development corporation providing £1.1m to enlarge its facilities.

Here, young people are taught shipbuilding skills such as carpentry, but in ways in which they can be applied in other industries more likely to offer employment.

On-the-job instruction comes from building and repairing boats for charities and other institutions, which raises finance for the centre's activities. The number of training places at Monks Ferry is planned to rise from 350 to 550 by the end of next year.

Merseyside does not lack people with the ideas or desire to try their own business ventures. Since August, 1983, 9,885 people in the region have applied for support under the Government's Enterprise Allowance Scheme.

This offers payments of £40 per week to people planning to launch small businesses, provided they invest at least £1,000 of their own. Currently, nearly 3,220 Merseysiders are receiving the allowance.

With an unemployment rate in excess of 20 per cent, many people's only opportunity to experience anything like real work is to join the Community Programme for the long-term unemployed. At present nearly 13,000 people on Merseyside are taking part in the programme, which offers mainly part-time work of a socially-useful nature.

For large numbers of young people in the region, the prospects of leaving school and immediately finding employment are remote. At present nearly 15,000 in Merseyside are in the Youth Training Scheme.

It is negative to see YTS merely as a response to youth unemployment. It is public policy that all young people who do not continue in full-time education should receive vocational training, leading to a recognised qualification which should improve their position in the labour market.

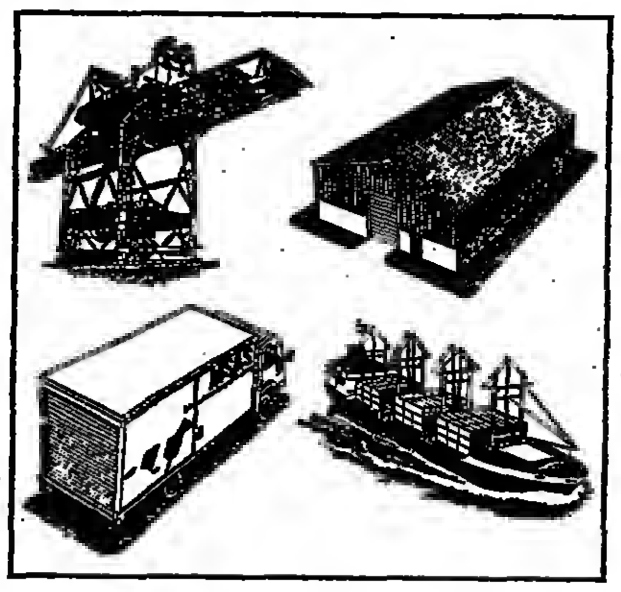
At present all Merseyside's long-term unemployed—those who have been without work for a year or more—are being invited for individual interviews at local Jobcentres under the Government's Restart scheme. The idea of the interviews is to re-motivate unemployed people.

Sometimes the interviews can produce job offers but they are more likely, particularly in areas like Merseyside, to lead to offers of places on the Community Programme or training schemes.

It is a sobering commentary on the scale of the unemployment which Merseyside faces that, since the national Restart scheme was introduced in the summer, more than 29,000 long-term unemployed people have already been interviewed.

Alan Pike

One of Merseyside's biggest groups has never sounded better.



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With about 60% of our pre-tax profits coming from land services, we recently took two important steps to consolidate our position as a land-based services company.

The first was the purchase of the remaining 50% of Panocean Storage & Transport, one of the world's top ten companies in its field; two of its facilities are at Eastham and Birkenhead.

The second was the acquisition of Jardine Cargo International which we merged with MSAS, our freight forwarding company. The result placed us among the world's top five international air freight forwarders and number one in the UK.

In addition, Ocean Fleets Technical Services, based in Merseyside, was recently awarded the prestigious duty of supervising the next refit of the Royal Yacht Britannia.

In short, Ocean is doing its bit to keep Merseyside firmly in tune with the rest of the world.

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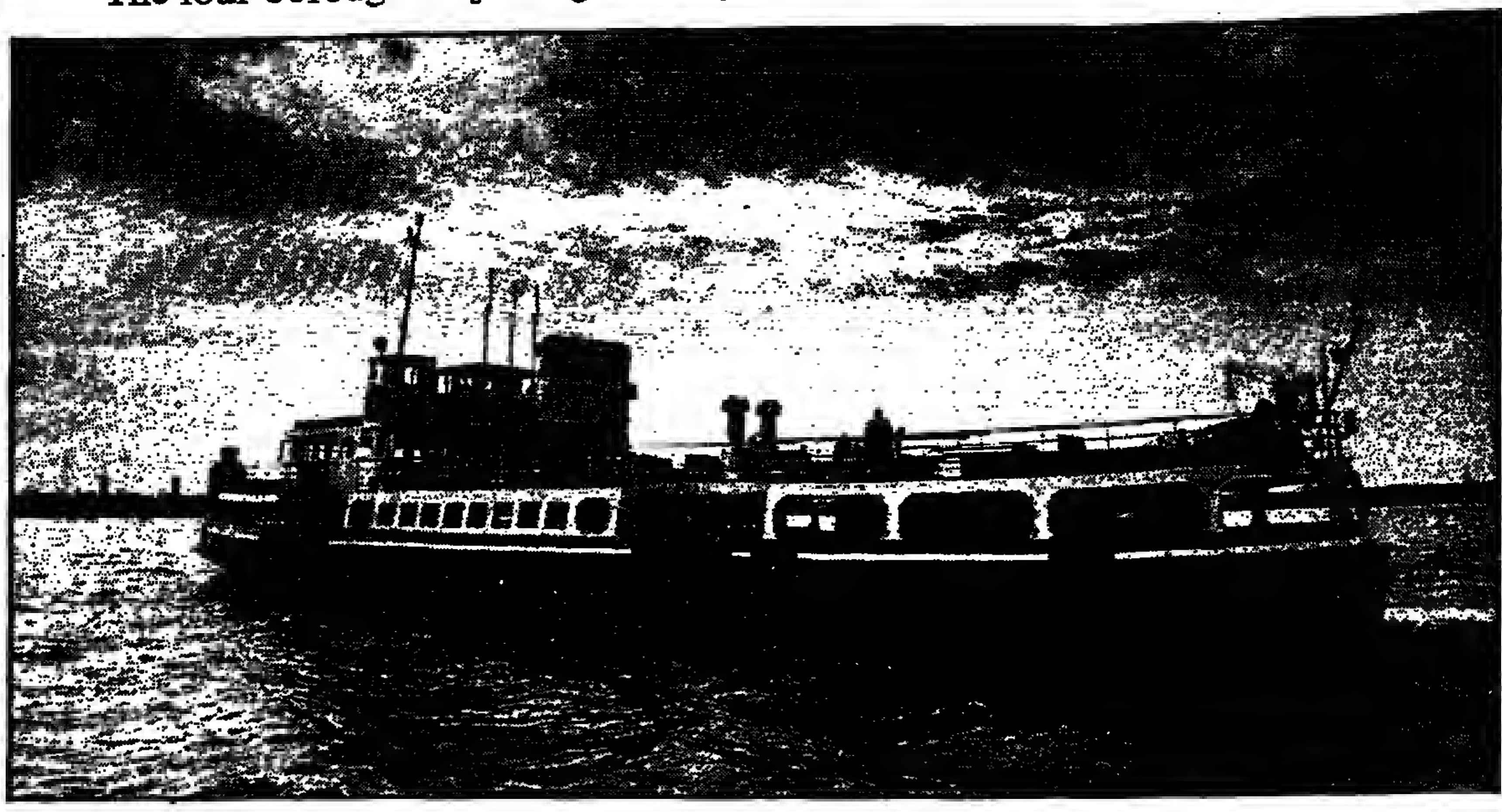
The four boroughs adjoining the City of Liverpool on both sides of the river are examined here



Ferry across the Mersey . . . the ferries, traditional link between Liverpool and Wirral, have survived years of wrangling over financing them. They are now a vital tourist attraction and provide one of the best ways of seeing both the Liverpool and Birkenhead waterfronts

Wirral

Peninsula of striking contrasts

WIRRAL's prosperity, like that of Liverpool across the Mersey, was based on its shipyards and docks. Similarly, their decline has posed some harsh economic realities, with an unemployment rate at over 20 per cent, the third highest in the north west.

Yet away from the north eastern part of the 60 sq mile peninsula, and the overall impression is still one of prosperity, with 14 golf clubs, eight sailing clubs and four major leisure centres. To the south is Port Sunlight, a model "industrial" village started in 1888 to accommodate employees of Lever Brothers, now part of the Unilever Group. To the west a sandstone ridge facing the Dee estuary with views of the Welsh hills and exclusive residences.

It is around Wallasey and Birkenhead that one third of the borough's population lives, however, and where economic development initiatives are most needed, and currently concentrated.

On the positive side, Wirral's economy has broadened out beyond its shipyards over recent years, and good access to the national motorway network has lessened its dependence on dock-related industry and employment. The Cammell Laird shipyard in Birkenhead is still one of the largest employers in the area, but over the past 20 years Wirral has attracted a number of other major concerns, including Cadbury Foods, now Premier Brands, Squibb, a major pharmaceuticals manufacturer, and Champion, the US based company designing and making spark plugs. Unilever is the largest private sector employer.

An economic development unit, set up two years ago within Wirral Borough Council, is playing an increasingly important role in attempts to further that diversification. This is reflected, partly in an increase in the unit's staff to 14 from three 18 months ago, with a chief officer of director status heading the unit.

It is also evident in the council's spending priorities. Industrial promotion now accounts for £1.25m of the capital allocation for general services, with £0.5m of Wirral's £3.6m urban programme budget spent on economic development, to which the council also devotes £0.75m from its revenue receipts.

The council helps in a variety of ways. Sometimes it provides loans for the construction of factory premises, or buys land and then leases it back to the company. In other cases, it has bought shares in a company to inject the necessary capital. It has also made resources available for the preparation of sites for industrial use. There are a number of sites serviced and available for development, including 50 acres allocated for high tech industries and an area of 8 acres for light industrial uses.

The council is also seeking to open up the docks area, much of it not now in use. A road costing £400,000 is being built jointly by the council, the docks company and the Merseyside Development Corporation to link the A41 to the M53 on the other side of the south docks. The MDC is expected to conclude a deal soon with the docks company for the transfer of the docks, which it then intends to reclaim.

The docks could still have a role to play, believes Mr Clifford Darley, Wirral Borough Council's chief executive. "If the Channel Tunnel is built, it may be that ships will come into the Mersey and discharge their goods to be transported by road or rail to the south coast. French and Spanish trawlers are already offloading their catch at Birkenhead to be taken on by refrigerated lorry. If that's economic, there is no reason why it shouldn't work on a larger scale."

Wirral's long waterfront could also bring large tourism developments. One developer has outline planning permission to redevelop New Brighton on the peninsula's north east tip, a traditional venue for holiday makers from all over north west England, the Midlands and north Wales which has suffered from the increasing popularity of cheap continental holidays. The scheme, possibly costing £15m, would include hotel accommodation, and a speciality village.

Last year, the area also attracted the regional headquarters of the Land Registry employing some 600 people. There is no reason why, with modern communications technology, other government departments or companies should not move away from the south east to areas such as Wirral, says Mr Darley.

But though the council welcomes inward investment, its main priorities are to foster the expansion of existing enterprises, and promote innovation and the application of new technology.

A business centre costing £1.2m was funded by the borough council, Merseyside County Council and the Department of Environment. It has 40 industrial units, with some 140 people employed in 25 businesses.

The council has also worked extensively with the MSC and the private sector in extending training initiatives. It has just opened a computer aided engineering centre in conjunction with Marconi and Mobil. The council injected some £800,000 into adapting the building and providing equipment, with the two companies contributing expertise.

A biotechnology centre is due for completion next summer at a cost of £500,000, designed to provide technician skills for the biotech industry. It is hoped to use ideas which larger companies in the area, such as Unilever want to develop and market, with space next to the two centres set aside for companies that might develop as a result.

Premier Brands has set up an action response centre to arrange secondments from the private sector to such projects.

Alastair Guild

Sefton

Home of UK's largest freeport

"TO MANY people, Merseyside is Liverpool and Liverpool is Merseyside. We aim to put Sefton in its true perspective," says Mr Gerry Corless, the borough's chief executive.

The northern-most of Merseyside's five districts, it is arguably the most diverse, with its complete mix of industry, commerce, retailing and tourism. To the south, the borough merges at Bootle into the docks area of Liverpool. Southport, to the north with its elegant sea-front gardens and hotels, long promenade and spacious shopping malls, is reminiscent of a south coast resort.

In between are the comfortable middle-class suburbs of Crosby and Formby.

The borough also offers an unusual range of incentives to industry. It is the lowest rated of the five Merseyside districts, and is among the lowest rated metropolitan boroughs in the country.

Sefton has benefited, in addition, from its status as a development area, its designation under the Inner Urban Areas Act giving it access to urban development grants, and has made full use of derelict land grants. Over the last three years, reclamation work has been carried out on 25 sites to provide seven acres of industrial land, three acres for housing, 11 acres for education and more than 50 acres of public open space.

Yet more land for industrial and warehouse use has been made available behind the Royal Seaforth Docks and container base, with the inclusion of part of the port's hinterland within the Merseyside Development Corporation's area.

The 600 acres Liverpool Freeport, the largest in the UK and entirely within Sefton's boundaries, has already helped lift the gloom in this part of the borough, with more than 100 companies having capitalised on its special status.

"We have also sought to maximise the flexibility of the planning process, believing that weeks can be crucial to a potential investor, while we are prepared to have informal discussions to help investors work up development proposals to give them the greatest chance of success," says Mr Corless.

The council has taken a number of other initiatives to improve the quality of the local labour force. It was, for example, the first local authority in the country to appoint a TOPPEX project manager. Training Opportunities by Exchange replaces workers at technician or operative level released for training with students on relevant courses in full-time education. Sefton recently appointed its first schools/industry liaison officer to promote links between schools and industry, while it has also joined the national PICKUP programme aimed at making local employers aware of the adult training facilities available in Sefton colleges.

The area has benefited from a close relationship with the civil service, part of which moved to Bootle in the mid-1960s. The then local authority was able to provide a suitable site quickly to enable the National Girobank to be developed at Bootle, where it is now one of the largest employers in the borough, with some 5,000 staff.

The Home Office and Inland Revenue have since moved staff to the borough, while last year saw the completion of the relocation to Sefton of some 1,000 Health and Safety Executive posts, creating about 400 job opportunities for local people.

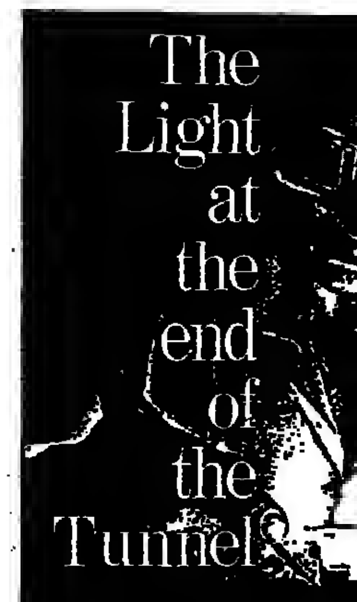
But Sefton has also been able to capitalise on its close proximity to Liverpool. The owner of the Aintree Racecourse industrial estate, for example, has said that a number of Liverpool firms have relocated to the estate, and that one of the factors influencing their decision was the relatively low level of general rate. B & Q's DIY complex opened at the end of last month is one of the most recent and significant examples.

The estate, a former Courtaulds factory, refurbished and sub-divided into smaller industrial units at a cost of nearly £3m, has also provided accommodation for a multiplicity of smaller, start-up enterprises, providing jobs for more than 1,000 people. Rents, starting at 50p/sq ft, are among the lowest on Merseyside.

"But we believe we eased the way for development of the site by not asking for rates on empty industrial buildings and adopting a flexible planning framework with as few restrictions as possible. This gave Portal Developments the scope to start refurbishments, helped also by substantial derelict land and urban development grants," says Mr Corless.

Alastair Guild

The Royal Seaforth Container terminal. Sefton's status as a development area has enabled it to carry out a great deal of reclamation work



The Light at the end of the Tunnel?

Liverpool-bashing has never been recognised as a national sport. Yet it's played all over the country, has no entry qualifications and doesn't require any particular skills.

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Knowsley

Social problems and too few jobs

KNOWSLEY could well be regarded as Liverpool's colonial problem. Its dominant town is Kirkby, to which tens of thousands of Liverpudlians were forcibly moved during redevelopmen more than 20 years ago.

It exists almost by accident. The original plans to reorganise local government boundaries in 1972-74 saw what is now Knowsley lumped in with St Helens. Preliminary meetings to discuss the change revealed a potentially unresolvable clash of cultures between a sort of Liverpool in exile and a self-contained Lancashire town.

The answer was to separate them, with the result that Knowsley is now the smallest of the five Merseyside boroughs. The small town of Prescot, which adjoins St Helens was lumped in with it but did little to stop the new borough comprising an almost entirely working-class community.

It contains about one-third of Merseyside's manufacturing industry but that in itself has not helped through the recession because many factories were "branch" ones, and easiest for remote headquarters decision-maker to lop off when rationalising.

Unemployment in some pockets in Kirkby is more than 35 per cent. Because the town has few social facilities, there is e dourness about it that does little for its appearance and its image to outsiders. Social problems abound. Here was the real-life setting for the television series Z-cars, the first "realistic" programme about policing in poor social conditions.

Thus, despite Knownsley containing several "outer estates" in green fields, it is treated by the government and the European Community as though it were an inner city area. This was accomplished through the initial influence of Mr Michael Heseltine when Environment Secretary and self-styled "Minister for Merseyside." He has described Kirkby as "an affront to civilised standards."

Despite its Left-wing image, Knowsley council has always been pragmatic, and formed a very fruitful alliance with Mr Heseltine and his successors. That it still has such a high proportion of council housing is not its fault—when it started in 1974, the figure was more like 75 per cent. Sales to tenants, demolition, encouragement of co-operatives, self-management schemes for tenants, and build-for-sale projects have been widespread.

Its most notorious estate, Cantril Farm, was sold to a new body, Stockbridge Village Trust, which is backed by Barclays, Abbey National and Barratt, the builder. This has remodelled vast tracts and will soon demolish three uninhabitable tower blocks. Where there was net outward migration from the estate, people are now trying to move back in.

Nevertheless, Knowsley has formidable difficulties still to overcome, including:

Thus, despite Knowsley containing several "outer estates" in green fields, it is treated by the Government and the European Community as though it were an inner city area. This was accomplished through the initial influence of Mr Michael Heseltine when Environment Secretary and self-styled "Minister for Merseyside." He has described Kirkby as "an affront to civilised standards."

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- Average unemployment of 25 per cent, about 80 per cent higher than the UK average. Half the male population without a job in Kirkby where the borough has its offices.
- Extensive poverty among the 166,400 population. Some 41,500 residents were receiving housing benefit in March this year when statistics were collected and 62 per cent of these were eligible for supplementary benefit.
- One of the highest proportions of council houses in England—45 per cent of the 58,000 dwellings—greatly reducing the mobility of labour.
- Less than half of all households with a car.

But this is Knowsley, sandwiched between Liverpool to the west and St Helens to the east, with little binding it together save the M57 motorway.

Its 37 square miles contains the towns of Halewood, Huyton, Kirkby, Prescot, Stockbridge Village and Whiston. Despite loss of industry, it is still home to Ford's big Halewood plant and one of Europe's biggest industrial estates, BICC group, Birds Eye Frozen Foods, Otis Elevators and Kodak Chemicals are also in Knowsley.

Knowlsey's troubles have centred on its dependence on the manufacturing sector for jobs and the absence of service sector opportunities to help soak up some of the unemployed. The council is likely to depend on outside assistance from central government and the EEC for some years to come.

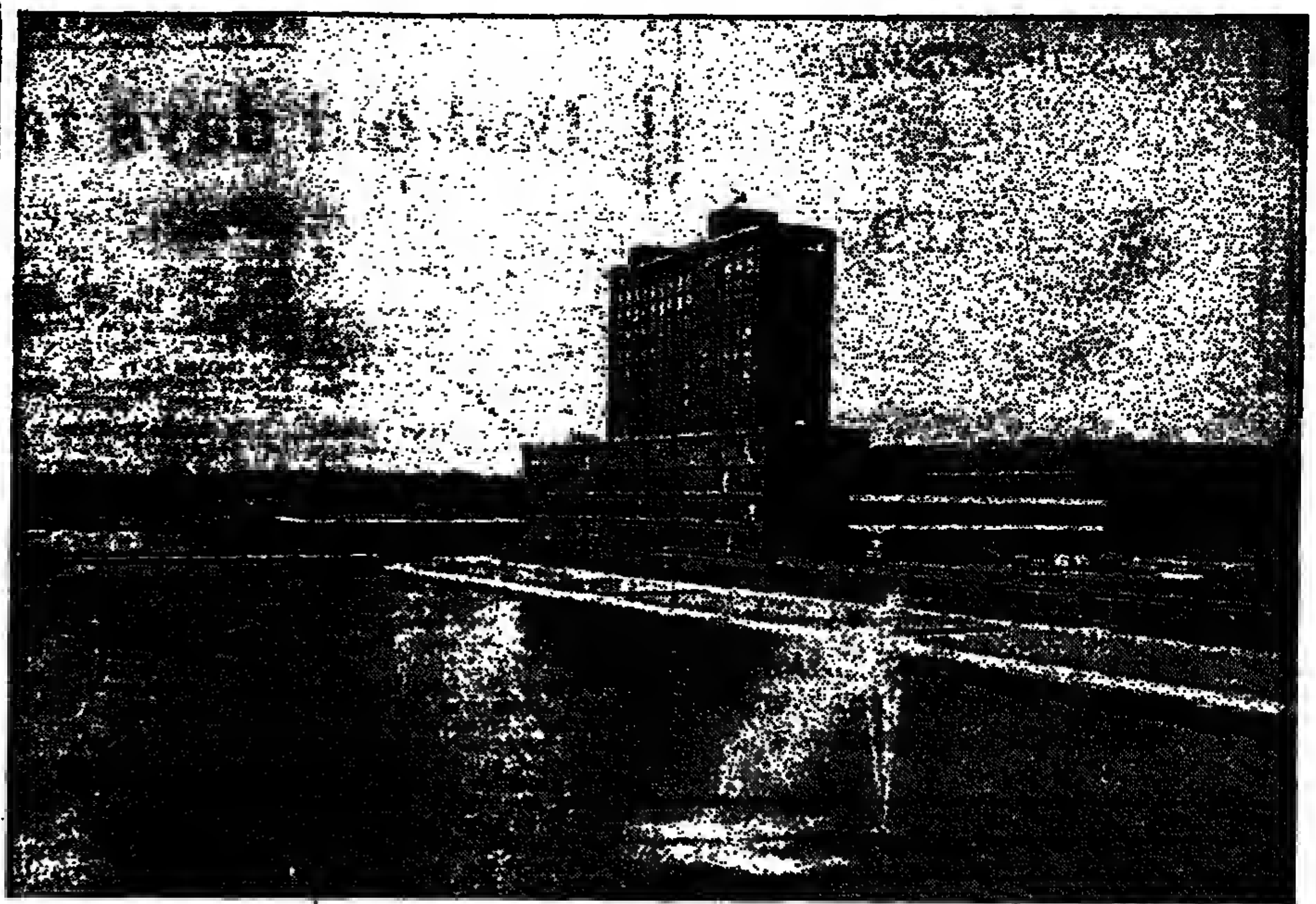
Mr Jim Lloyd, Labour leader on the council says that despite the various forms of assistance to Knowsley, the level of government assistance has continued to fall in real terms.

Knowsley became a Programme Authority in 1983 providing £3.7m a year for urban renewal projects. Of this nearly half has been spent by the council on social projects.

But Mr Lloyd says that overall council spending of around £333,000 has gone to the private sector to encourage and generate new investment as well as job opportunities. These have created or maintained up to 300 jobs.

According to Mr Richard Penn, Knowsley's Chief Executive, the industrial policy of the borough is aimed at making the best of what is there. "It says let's keep what we've got."

Mark Meredith



The most famous name in St Helens. Pilkington Brothers' head office is one of the landmarks of the borough. The company is currently the subject of an unwelcome takeover offer from industrial conglomerate BTR

St Helens

Highly independent community

ST HELENS was a reluctant member of the Merseyside community, and as a result not wholly disappointed by the demise of the Merseyside County Council earlier this year.

They play rugby here—of the league variety—not football like the Liverpudlians. The accent is different, too, and Pilkington, the glass company which dominates the local economy has refused to put Merseyside in its address.

This highly self-contained, very independent community did not take lightly to other people telling them what to do. "It was a wholly synthetic arrangement," says David Wood of the St Helens Chamber of Commerce.

Indeed, what is remarkable about St Helens is that it has a tradition of dealing effectively with its own problems. No riots in Toxteth were needed to spur its citizens into action.

Here there have been productive co-operation between a Labour town council and the business community which has produced results in the search for new industry and employment.

This has not been achieved without conflict: Labour split between moderates and left-wingers after the moderates had committed the council to co-operation in the 1970s. But the very success of the main instrument for job creation, the community of St Helens Trust, made it impossible to withdraw from when the left seized power after 1983.

Economic strategy for the area points to the need to encourage small businesses to generate new employment. St Helens has felt the blow of nearly 17,000 redundancies since 1978 of which about half have come in a glass industry built up on the region's coal and sand resources.

Coal too has declined. Bold Colliery shut down this year with the loss of 1,000 jobs while the future of Sutton Manor pits nearby is under review with the possible loss of 770 jobs.

Industrial closures have left the town with more than one quarter of the total derelict land in Merseyside. The glass industry at one time employed 30,000 and Pilkington alone had around 14,000 at its peak. Today there are around 12,000 in the glass industry with about 6,300 in Pilkington and the rest in United Glass, now part of Guinness, and Ravenhead glass.

The contraction of jobs which left Pilkington with its headquarters, along with flat and safety glass production also led to the creation of a unique formula for generating new industry which has later to become the norm for the rest of Britain.

The Community of St Helens Trust, Britain's pathfinder enterprise agency, was the brainchild of Mr Bil Humphrey. It soon attracted the interest of Mr Michael Heseltine, who encouraged a wider spread of the idea.

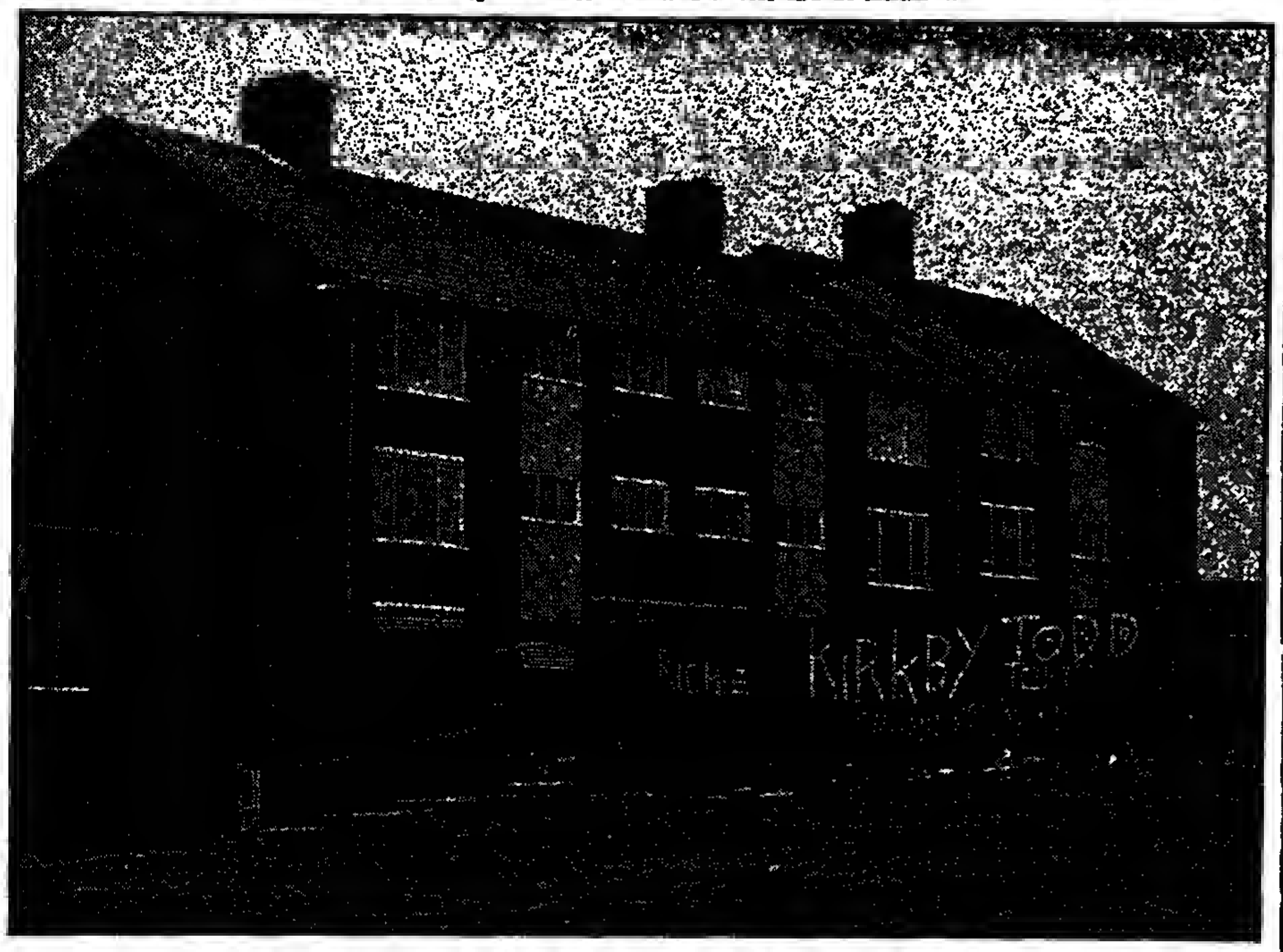
This was the birth of the enterprise trust movement which through the Business in Community organisation has spread throughout most parts of Britain.

The Community of St Helens Trust has helped over 450 people start their own businesses and 200 more have been assisted in a business expansion. Accounting assistance, information on grant and information technology are all available through the Trust which also has syndicated a Business Expansion Scheme to provide venture capital.

"You don't need to ask if we are doing any good," comments Ron Halford, deputy to David Boult, the chief executive of the trust. "You just need to take a walk down Jackson St."

In this showcase industrial complex are some of the new companies on which St Helens has set its hopes; companies making specialist engineering fittings, another freeze-drying shrimp, another producing office partitions.

Mark Meredith



Housing in Kirkby, to which tens of thousands of Liverpudlians were moved during redevelopment, creating conditions for many of Knowsley's present difficulties

Venture capital

Specialist bodies begin to emerge

AS EVERYWHERE else, the financing of small businesses on Merseyside rests with the clearing banks as the main lenders of working capital. Bodies specialising in venture and development are, however, emerging.

Their impact is tiny at present but their importance is in the climate they are helping to create. A few high-flying successes in the next few years will do much for the City's confidence in the region.

Investors in Industry (3i) has a Liverpool office and has found plenty of small and medium-sized developing companies to back over the years. Where the new bodies are emerging is at the bottom end of the scale, in the so-called "equity gap."

The sums involved are usually in the £20,000-£200,000 range. Most funds find it hard to lend below about £200,000 because the returns are not enough to pay for overheads. The Merseyside Enterprise Board, the North West Investment Fund and the St Helens business expansion syndicate have all positioned themselves in the gap.

Lazard's also has a regional fund which advances small capital sums on Merseyside but the other three are local products.

The Merseyside Enterprise Board is gradually re-establishing itself after a series of setbacks. It was founded by Merseyside County Council and "privatised" on the council's abolition. However, it has never approached the effectiveness of its counterparts in West Yorkshire or the West Midlands.

This year it had a big disruption when its chief executive died suddenly. It took six months to find a successor and the country's former head of economic development, Mr Jack Stopforth, now an independent consultant, stepped in temporarily.

But a development capital fund which had not yet started operating had to be unscrambled and contributions returned to outsiders. This did not stop the board making several investments with its existing own resources, however, and normal operations have now resumed.

The only cloud remaining for it is the confidence of outside financial institutions in the chairman, Mr John Duncan, formerly chairman of the county's economic development committee. He was prominent in St Helens Labour Party, presently suspended by the party's national executive, and is likely to face disciplinary proceedings under the party rules. This situation should be resolved in the next few weeks.

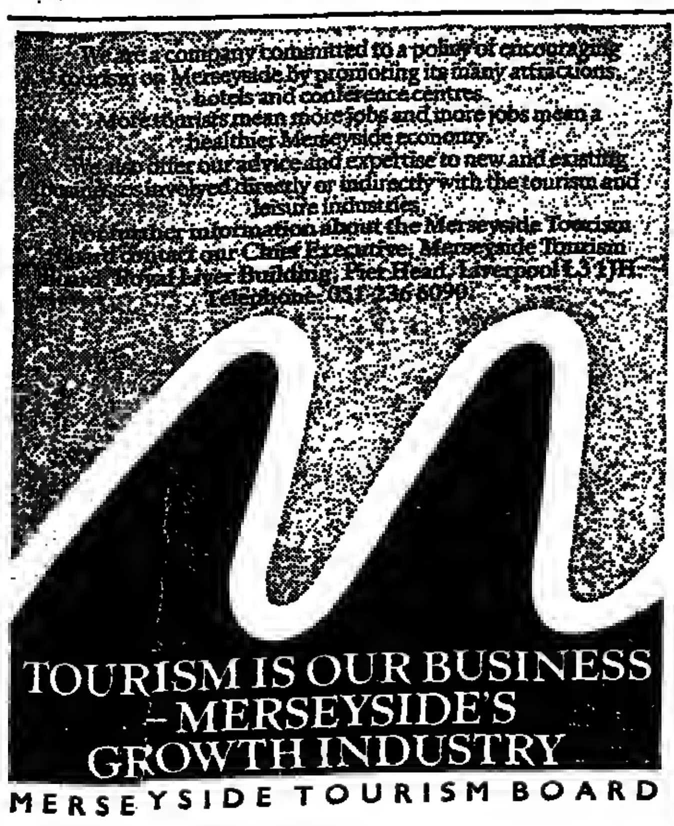
The North West Investment Fund is run by Sapling Enterprises, a subsidiary of the Manchester-based management consultancy, Collinson Grant, whose chairman, Mr Len Collinson, lives on Merseyside. Its backers include Royal Insurance, local authority pension funds and the church commissioners. The fund keeps its overheads down by using the consultancy's staff on a case-by-case, marginally-priced rate for evaluations. This enables it to get well down the equity gap in its investments.

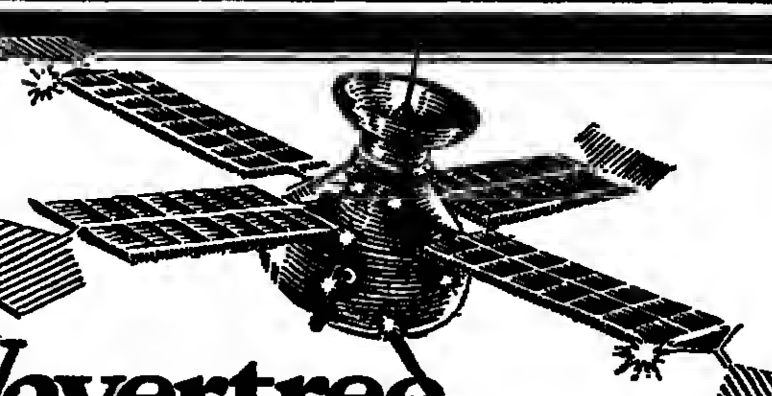
One thing it pioneered—now being copied by other funds—was a compulsory buy-back clause in its deals. This forces the developing business to buy the fund out after several years as the business becomes successful, thus promoting liquidity for the fund and freeing money to back the next wave of promising companies.

The St Helens Business Expansion Syndicate is exactly that. It was the brainchild of Mr David Boult, retiring director of the community of St Helens Trust and makes extensive use of the trust's "network" in the town, as well as its advisers.

It uses the tax shelter of the Business Expansion Scheme but syndicates its deals, all local and in the equity gap, among a small group of private investors in St Helens. It probably resembles more closely than anything else what the Government had in mind when it introduced its BES legislation in the first place.

Ian Hamilton Fazey





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Port of Liverpool

Bad old days fading fast

THE PORT of Liverpool has undergone immense changes in recent years and is now waiting for its image to catch up with the facts of life.

During the 1960s and early 1970s Liverpool dock workers enjoyed — literally, it sometimes seemed — a reputation for difficult industrial relations and unreliability.

The port's more recent bistory is ona of new-style agreements, manning reductions, better productivity, a near-disappearance of strikes and e growing Freeport. But negative reputations do not vanisb quickly and the authorities are still giving much attention to marketing around the world what they carefully describe as the new Port of Liverpool.

Perhaps the most dramatic singla example of the changes that have taken place in the port's industrial relations is an agreement at the Royal Seaforth container terminal which allows the largest container ships to be turned round within a single 12-bour tide.

Whatever the time of day or night thet a ship docks it is immediately fully manned hy workers operating in two six-hour shifts, ensuring that it is ready to sail again 12 hours later.

Container handling productivity at Seaforth has risen substantially as a result of new flexible working errangements. Gross box handling rates rose from 12-15 per crane bour in 1984 to an average of 22 per bour in the last three months of 1985 after the new arrangements came into force.

Dock managers and, more importantly, shipmasters say that the Seaforth container terminal's productivity record now stands favourable comparison with Continental and North American ports.

"The port authority has made tremendous strides and there has been a real change of attitude among the workforce," says Mr Richard Orman, managing director of Cunard Brocklebank, whose Atlantic Container Line vessels benefit from the fast turn-round time.

"I think the message has got through that you have to earn your corn these days and offer a truly competitive service," he adds.

Changes in industrial relations structures in Liverpool which have led to new agreements like the one at the container terminal stem from a decision in 1979 to set up e Port Modernisation Committee as a central negotisting structure moving away from the old, difficult procedures of separate and sectional bargaining.

This change prodnced a basis for negotiating new working practices and manning reductions. By 1982 Liverpool became the first port to achieve the stability of a two-year pay agreement and it has since remained on two-year deals.

Ten years ago 80 per cent of Liverpool's dockers worked to standard agreements within which customers' requirements had to be accommodated. Now 80 per cent operate under agreements designed to meet the specific needs of port users. Apart from the 1984 national dock strikes, Liverpool has seen no significant industrial action for five years, with 1983 and 1985 totally strike-free.

Mr Jimmy Symes, Transport and General Workers Union official responsible for Liverpool docks, says thet the workers now fully understand the needs of the port and its customers and set out to meet them.

The changes at the port have included beavy job losses. Since 1981 Liverpool's dock labour force bas declined by 46 per cent and the port's general workforce by 52 per cent. The workforce now numbers 2,600, of wbom 1,200 are dockers.

But in spite of these reductions the pressure to reduce the workforce continues. The Mersey Docks and Harbour Company will be seeking to negotiate further redundancies under the revised national voluntary severence arrangements for the industry introduced last year. These contain severence payments of np to £25,000.

Labour costs for registered dock workers who were considered surplus to requirements cost tha company £2.3m last year—nearly 9 per cent of its total cargo-handling revenue.

Although severance schemes led to 160 employees—52 of them registered dock workers—leaving the port last year the harbour company was forced under the National Dock Labour Scheme to employ 33 registered dock workers from companies which ceased to operate in the docks.

Liverpool's problems have not been confined to industrial relations. Attracting sufficient business to a port on the north-west coast of England, with its potential disadvantages in ship-scheduling terms, has been equally demanding.

Mr Trevor Furlong, managing director and chief executive of the Mersey Docks and Harbour Company, rejects the argument that Liverpool is geographically ill-placed for the trade of 1980s.

"Yes, we have a slight disadvantage in terms of trade with Continental Europe," he says. "But the port husiness today is increasingly about providing a service. So long as you give the best service you get the traffic. That is why I am confident."

In an effort to improve Liverpool's position in terms in inland transport, the harbour company bas this year reconnected the deep-water berths in Hornhy and Gladstone docks to the British Rail network.

Bulk cargoes are seen as particularly important to Liverpool's future. One of the most important is the gain trade, with the Royal Seaforth Grain Terminal handling about one-third of all UK grain imports, although throughont the terminal is well below capacity.

With the grain terminal connected to the railway system, direct delivery to mills in York-*thire and Scotland will* be possihle.

Timber is another important trade et Seaforth. The terminal there is the only one on the north-west coast capable of handling the largest bulk carriers and Liverpool has recently increased its market share of timber imports.

Tha new rail connections serve Liverpool Freeport, the first and biggest of the country's six experimental freeports. During 1985, its first year of operation, Liverpool Freeport handled 40,000 tons of cargo worth £24m. So far this year it has handled 135,000 tons worth £50m.

Although some business leaders on Merseyside would have hoped to see a more rapid growth, Mr Furlong is confident that the Freeport is making a *vital contribution* to *the Port of* Liverpool's total package of facilities.

The harbour company made a post-tax profit of £2m last year and £1,028m in the first half of this year. Besides its direct port operations, the company has sought to strengthen its position by a degree of diversification.

Consultancy services are available to a range of overseas port operators. While Neptune Security—the port's 200-strong security service—now does 60 per cent of its work on contracts outside the port.

Alan Pike

Trevor Furlong, managing director of the Mersey Docks and Harbour Company

Shipping

Strength through reorganisation

MANY of the shipping companies which mada tha name of Liverpool famous throughout the world have hecome memories, but two of the hest known—Ocean and Cunard—continue to provida e focus for industrial activity on Merseyside.

Ocean Transport and Trading hed begun a programme of diversification from its traditional shipowning base before the shipping slump in the early 1980s provoked further restructuring. Since 1981 its fleet has declined from 36 vessels to seven, and today 80 per cent of the group's turnover comes from land-based activities.

This rapid reduction in shipping activities led to many job losses. But ahout 1,700 of Ocean's 7,000 employees worldwide still work on Merseysida and activities based there contribute some £175m to the group's annual turnover, which last year was £767m. This pnts Ocean among Merseyside's leading companies.

The restructured Ocean group provides a broad range of specialist industrial and distribution services covering worldwide freight forwarding (its MSAS Holdings is Britain's largest airfreight forwarder), fuel distribution, offshore oil support, shipping and ship support services, specialised warehousing and bulk liquid storage, waste management and aggregates and vehicle services.

About 15 of the group's companies still have activities on Merseyside, some of which—like Elder Dempster, Palm and Guinea Gulf Lines' services to west Africa—still clearly reflect Ocean's original shipping operations.

One marine activity which has recovered from the reorganisation with remarkable strength is the Liverpool-based Ocean Fleets Technical Services, which provides ship design and engineering services for the maritime industry thronghout tha world.

By the early 1980s this naval architects' operation had shrunk to about 10 employees and, unahle to expect any future Ocean work es the group moved away from shipping, staff began searching the world for new orders.

Tha search has been so successful that more than 90 people are now employed on a staff or consultancy basis.

"Ocean made a conscious decision not to turn its back on Merseyside as the restructuring of the company took place," *says Mr Nicholas Barber, who* became group managing director this year. "Many jobs were lost, but the success of the naval architects' service is an example of e way in which we have been able to retain and recruit highly qualified staff in the Liverpool area."

Tha group's Merseyside *operations* which looked as though they might have a doubtful future have undergone similar revivals. A bulk-handling facility at Birkenheed which formerly handled iron ore for the Shotton steelworks is flourishing again after successfully finding a range of smaller customers to compensate for the loss of one big one.

Ocean has also converted its former ship-repair yerd at Birkenhead, closed in 1981, into the Odyssey Centre—small busines units which provide accommodation for more than 40 companies.

The registered office remains in India Buildings, Liverpool, where Ocean was housed when it was founded in 1865. Only two of the original five floors of India Buildings are now required for its own purposes, but following a recent facelift of the block's famous arcade Ocean has increased tenanted occupancy from 60-70 per cent to around 90 per cent.

Cunard is no longer housed in the equally famous Cunard Building on Liverpool's Pier Head but in the less grandoise surroundings of a converted cotton exchange where arrays of computer terminals indicate the change which has taken place in the Liverpool shipping industry since the days when crowded passenger liners sailed for New York or Boston every Saturday.

The company, now part of Trafalgar House, is represented in Liverpool by Cunard Brocklebank. This operates within Atlantic Container Line, an international company with British, French, Netherlands and Swedish interests which provides a regular RoRo con-*tainer ship service* on the North Atlantic.

Atlantic Container Line operations ara the biggest activity at Liverpool's Royal Seaforth Terminal, where productivity has soared since the introduction last year of a flexible working agreement *which enables huge container* ships to be turned round within a single 12-hour tidal period.

Tidal patterns at Seaforth mean if a vessel cannot sail on one high tide it must wait in port for another 12 hours. The new agreement, combined with close co-operation between port services, has given Seaforth e turnround time which compares favourably with Continental or North American ports.

Cunard has a 22.2 per cent share in Atlantic Container Line, which now has nine ships committed to the service by the international partners—five of them the third generation of large container ships twice the size of previous vessels. Besides cargo containers, they have facilities for carrying up to 1,700 cars each. A large proportion of Jaguar car exports to the US now goes in Atlantic Container Line vessels from Liverpool.

The diesel-powered third-generation ships, replacing steam turhine vessels, have been designed according to computer projections of probshle North Atlantic freight needs up to the end of the century.

Cunard Brocklebank is also taking e leading part in the development of Data Interchange for Shipping (Dish), a project which is likely to have important implications in the use of computers to improve efficiency and reduce costs in the shipping industry.

The intention of the schema is to establish data exchange between importers and exporters, freight forwarders, shipping line and other transport operators through their computer systems. Initially the system will be used to exchange information by computer on voyage schedules, bills of lading, freight invoices, instructions to shipmasters and cargo bookings.

Pilot trails of the Dish experiment began in October and will be evaluated next spring. Cunard Brocklebank is being joined in the experiment *by four other* shipping lines—Hapag Lloyd, Associated Container Transportation, Maersk Line and Overseas Containers. The principal shippers taking part in the project are Baxter Hoere, Guinness, ICI and Rowntree Mackintosh.

ICL has been chosen to provide a data-processing network service for the Dish experiment which will enahle companies with a variety of different computer systems to exchange information.

Alan Pike

Loading the Atlantic Compass at Royal Seaforth container terminal

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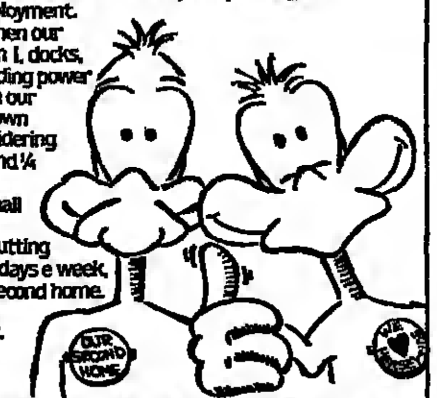
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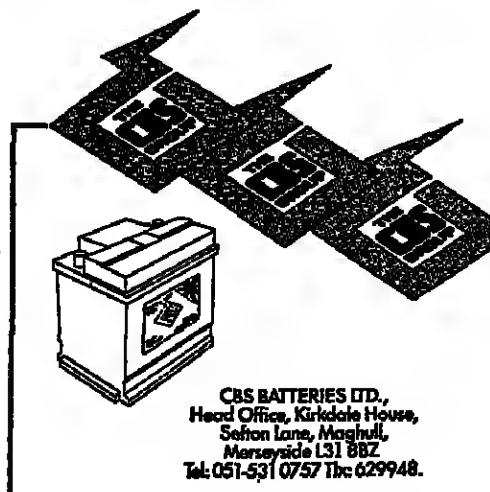
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Business leaders

Praise for the quality of life

ONE OF Merseyside's oldest companies is Edward Billingtoo and Sons, founded in 1858 and atill a private business, run by the fourth generation of the founding family.

It started as a sugar and coffee merchant but bas since diversified into cattle food, packaging and meat. It employs 450, more than half of them on Merseyside.

Mr John Billington, the chairman, says: "We are bere because we were already here and there is no necessity to move. We are doing all right, but not necessarily because we are in Liverpool."

The company is one of the three surviving sugar merchants in Britain (there were formerly scores of them) aod this means that it has many big customers in the food industry. Merseyside's image has not helped business lately, bowever.

"If we want to ask someone to come and see us he thinks about it—and bis wife won't come," says Mr Billington. "Liverpool's reputation has not helped at all. Inviting people to the Grand National at Aintree seems to be the only way we can get people from elsewbere to come nowadays.

"But when people do come, they are totally surprised. They find we have a good workforce and enjoy a good quality of life.

"After the Toxteth riots in 1981 we nearly got the formula right. Then the Labour council came in. It was not so much what they did but the way they made the noise. It is going to take a long time to live that down."

Mr Alan Cotton, managing director of Bear Brand, the hosiery and tights manufacturer, says that he is now using the contrast between the image and reputation of Merseyside and its reality to increase sales from the company's factory et Woolton.

He became the company's chief executive after buying the name from the receiver in 1976. Now part of the Tranwood Group, it employs 200 and is turning over an annual £6.6m, a 10 per cent increase on last year.

Recent large orders from established customers will help the factory to expand by 17,000 sq ft to 93,000 sq ft next year, when turnover will grow by a third as a result, says Mr Cotton.

"We did look at the possibility of locating elsewbere, but it would have been too costly an exercise for a low-margin business," he says. "We decided instead to turn things to our advantage and make being in Liverpool work for us.

"We have put in a lot of investment and streamlined the factory, which is now one of the most antomated in the UK. We have made our machines competitive to fight imports successfully. Over the past 10 years we have tried to get the manufacturing base right and restore people's faith in us as a Liverpool company.

"It's very easy to knock Liverpool companies and very difficult to get people to come here and see you. Now, when they do, they are totally surprised and realise that the reality is so different from the image. That is now belping us to win orders.

Hoyle Marine is e small company in Wallasey that has taken traditional skills and transferred them into a high-technology industry. It has developed bigh-frequency welding techniques for fabrics coated with polyurethane rubber. Using this technology, it makes floating oil booms, salvage lift bags and rigid inflatable boats.

The company was formed io 1969 by three marioe engineers formerly employed by Blue Funnel Line. As ship repair on Merseyside dwindled in the 1970s, Hoyle moved in to take oo skilled people, partly to expand and partly to ensure that the area did not lose those skills.

Thus it created a cadre of foremeo who could supervise key areas such as welding and plumbing and pass on their skills to e young, newly-recruited workforce. The company employs 16, turns over £750,000 and is growing fast, having just secured e £200,000 order for oil spillage and anti-pollution equipment for Oman.

Mr Peter Townsend, sales director, says: "Much industry bere is bnoyant, although a lot smaller. When you lose major industries wbere the technology level was low you shed unskilled labour and you cannot replace those jobs. It then takes a long time to build up industries to replace them.

"You need a core of skills to create those industries in the first place. It is a race to mop up the skills before the people who have them disappear. The younger, better ones are usually the first to up and go but many of the older ones, man in their 50s when they lost their jobs, are less likely to want to work as they get older.

"This puts us in danger of losing skills for a whole generation and then never being able to replace them. The skills may oot be used directly in new industries but the basics, the principles behind them, certainly will be and must be passed on."

Like many contemporaries running businesses in the area, Mr Townsend worries about the city's image but believes that it is not just the tactics and antics of Liverpool City Council and the Militaot Tendency that have given Merseyside its bad name.

"Merseyside is full of comedians and has always attracted publicity," be says. "People speak out and make a lot of noise where others do oot. There are many problems generated by unemployment. In an area like this people can hardly be expected to keep quiet about them."

Mr Russell Black bought Hernway Transport from the receiver in November 1984. His previous experience had been in distributioo with TNT and Lex Wilkinson, where be was managing director, and be had worked in the Middle East.

Now Hernway is called Night Freight, operates out of 18 depots all over Britain, and employs 500. But its beadquarters are still on Merseyside, where staffing has risen from 108 to 140 in two years.

The company be took over bad one big account which had long kept it afloat, distributing the Liverpool Daily Post and Echo newspapers for morning and evening sale.

There is skill in this — in adjustment to the corporate ways of newspaper publishing —and it has paid off. Mr Black says it was a key factor in Night Freight winning the distribution cootract for the oew Independeot's printing plants at Portsmooth, Peterborough and Bradford.

"It is clear that the image of Merseyside is poor but I have to say we have no problems with our workforce there," he says. "Indeed, we have fewer problems than is 'normal' in our industry and we hope to buy more companies on Merseyside in the next two years.

"As far as tha city council is concerned, I am apolitical. They present no business difficulties to us except for the rates and their impact on the prosperity of the region. Generally, their bark is a lot worsa than their bite."

Merseyside's reputation has been a two-edged weapon for Mr John Stower, managing director of Synectie Systems, a software bouse set up io 1981. It now has 14 employees and a turnover growth of a third over the past two years to about £500,000.

It started with computer programs for ship management and soon won big orders from Canadian Pacific, Bibby Line and Fednav. The approach uses a series of modules covering the key resources of money, physical assets and people and links them through a common coding structure. A customised system can then be built from the differeot modules.

The advaotages—faster operational effectiveness and an improved flow of management information—and their wider applicability soon became apparent to the chemicals, gas, oil and offsbore industries. But they ware also capable of being adepted into a purpose-built package for debt and invoice factoring, with good prospects in the financial services sector.

Mr Stower says: "Because of Liverpool's long maritime tradition it belps to be bere wben we sell to internatiooal shipping companies. We expect to do very well oot of the Isle of Man's new shipping register, since Liverpool is the nearest big port to provide the rigbt sort of services and infrastructure.

"But the story has been very different with our new financial services packages. The big boys are in London, and Merseyside's image has been no help to us et all. We have met many people who refuse even to travel to Liverpool and won't take us seriously at all.

"Fortunately, we have a good client list and track record with which to counteract this, but a change in image would help us a lot. We bave been perceiving a chango in attitudo recently but there is still a long way to go."

Might it have been better for Synectic Systems to set np in the South East? Mr Stower thinks oot, despite tho image problem. He says a key factor is that Synectic has a stable workforce of experienced software experts who are settled in the area and like the North.

In London, similar staff are hard to find and need higher salaries to support what is often a lower standard of living. They also job-hop between companies.

A similar point is made by Mr Malcolm Baucher, a construction engineer who set up his own building company after losing a big-company job. "Despite its obvious problems the area has good coastal scenery, a countryside readily accessible within minutes, and many social and cultural advantages," he says.

"You need mnch less income bere for a standard of living which many people in the South would call good and struggle to attain," be adds. "If you can earn that bere there is no point in going anywhere else. This is a side to life that people elsewhere do oot understand.

"I have to explain it freqoently when I travel around the country because of the image people have of us as strife-torn and doomed."

Mr Michael Rice, of Flow Control Water Conservation, admits that it would have been easier for him to start np in the South of England than in Wallasey bnt says: "I was born and bred in Wirral. It's where my loyalties are. We got on our bikes and went looking for work to do bere."

His company makes devices be invented to cut down water wastage in public washrooms. They fit into taps—restricting the flow to the exact amount oeeded for washing hands and oo more—and cisterns.

Savings in water used have varied from 40 to 75 per cent, with schools, hotels, universities and local authorities the company's main customers. A 800-bed hotel can expect to save half of a "normal" water bill of £2,000 a week.

The company will turn over £1.3m this year and has a staff of only 20. "Every one of them came off the dole and they have turned into a great team of workers," Mr Rice says. "That must say something for the strength of Merseyside, its people and their determination to rise again—despite Hatton, Militant and the other wreckers."

Ian Hamilton Fazey

Keith Robinson, director of Merseyside Chamber of Commerce and Industry. He believes that Liverpool politics have damaged the region's image severely.

Liverpool as it is seen in the arts. Liverpool playright Alan Bleasdale's TV series The Boys from the Black Stuff portrayed the reality of unemployment in the city and has been shown all over the world

The Arts

Talent and large audiences

MORE IS spent on the arts per head of population on Merseyside than anywhere outside London. The reason is partly because Liverpool has always had a strong artistic tradition but also because the county council encouraged the arts for years before it was abolished.

This encouragement cut across both Labour and Conservative parties, led by the respective arts chairmen, Mr Ben Shaw and Mr John Last. It is certainly unlikely that the Maritime Museum, for example, would have developed without an all-party push in the 1970s.

Since the abolition of the county council, the five districts have taken over some of the funding although Liverpool has found the money for only half its share and Knowsley for threequarters.

The Arts Council makes up the rest, though as Mr Last puts it, the art galleries and museums have been "nationalised," a status he says befits their quality. They are now run by a board of trustees, chaired by Sir Leslie Young and appointed by the Government, and are called National Museums and Galleries on Merseyside.

They include the Walker Art Gallery in Liverpool and the Lady Lever Art Gallery at Port Sunlight, as well as the Maritime Museum and the Museum of Labour History. Budget for the current year is £8.75m, but Mr Last thinks this is good value for something that attracted 1m visitors last year.

Per capita spending on the arts on Merseyside is 368p. This compares with 754p for London but is well ahead of Manchester (183p), South Yorkshire (271p), Tyne and Wear (239p), West Midlands (280p) and West Yorkshire (200p).

The large audiences for concerts and the theatre testify to demand, as well as to the reputations of the Royal Liverpool Philharmonic Orchestra and the two principal theatres, the Playhouse and the Everyman.

Merseyside talent—and the conditions that nurture it—also has a lot to do with it, with Willy Russell, Alan Bleasdale and E. A. Whitehead prominent among the writers to have emerged in recent years. The Playhouse and Everyman have sent three productions to the West End in the past 18 months, adding to Liverpool's reputation.

Meanwhile the touring opera and ballet companies play to full houses at the Liverpool Empire—one of the biggest theatres in Britain. Mr Julian Sciarrini, who owns a complex of Italian restaurant, trattoria and pizzeria — itself another Merseyside success story—says he does a roaring trade in early dinners when the Scottish and Welsh national operas are in town.

It is this sort of spin-off that the Government believes makes the arts on Merseyside more than worthwhile from an economic point of view. Apart from that, however, there is a cultural lift and focus that does much to offset Merseyside's downside. One of Liverpool's reputations therefore is the "hottest theatrical town in Britain." It is proud of it.

Ian Hamilton Fazey

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Mixed views in dialogue

CONTINUED FROM PAGE 1

26,000, Sefton 21,000, Knowsley 20,000 and St Helens 14,500.

These absolute numbers are far worse than the percentage rate alone suggests. Smaller communities can attack a 20 per cent rate and make a significant impact with a few measures. But Merseyside has more unemployed than has Wales and a similar number to Northern Ireland. Worse, it is concentrated disproportionately in Liverpool, were business confidence is lowest and where, in some districts, it is impossible to get insurance.

Prof Minford and Mr Stoney, who are members of Liverpool University's research group in macroeconomics, launched a new, twice-yearly publication in February, Merseyside Economic Prospect. This seeks to provide factual data on Merseyside as a guide to sensible opinion and policymaking.

In the two issues so far, they say:

- High regional unemployment is associated with high rates. Liverpool's business rates of 308p in the pound are the third highest of 36 metropolitan districts, behind Newcastle-upon-Tyne and Sheffield. Knowsley and St Helens, both Labour-controlled, are not far behind at 297p.
- Unemployment is 3 per cent higher than it would be if rates were 30 per cent lower at national average levels.
- City council policies to "maintain jobs" through high rates are offset in the medium and long term by the effect of the rates on private sector businesses, where jobs are lost.
- Because of the local strength of the unions, average weekly pay on Merseyside is about 2 per cent higher on Merseyside than the national average, and continues to rise. If the unions were only as strong as in the least unionised parts of Britain, unemployment would be 1 per cent lower, because labour would be paid nearer market rates.
- Unless there is more co-operation with central government and a reduction in local public spending that will bring about moderation in rates bills to industry, unemployment will rise to 30 per cent by the end of 1989.

Prof. Minford says that understanding the mechanism of this relationship between public and private sectors is *fundamental to persuading* "local government, local unions and local people" to change their ways.

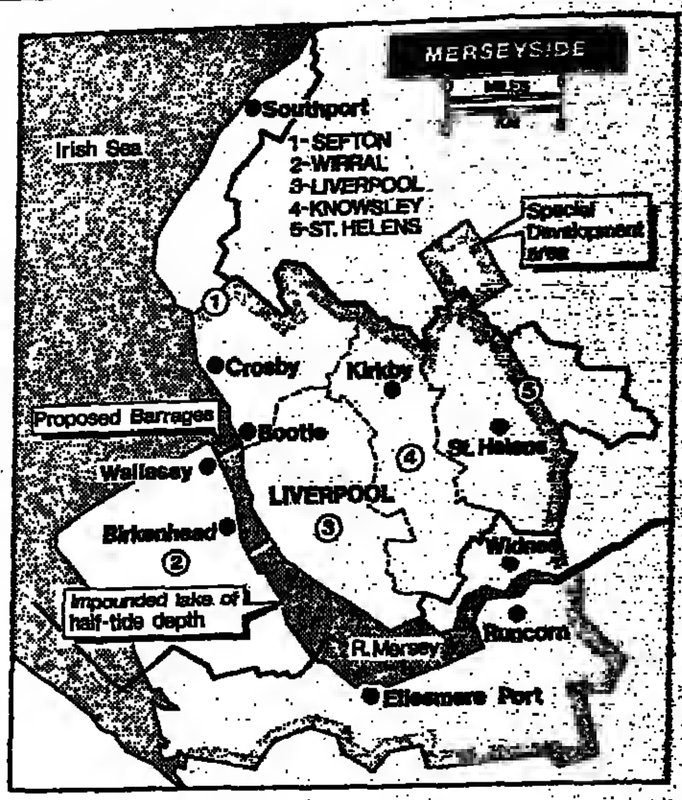
"Lower business rates (based on greater economy in local government), lower wage demands, greater flexibility and co-operativeness with management, a desire for greater profitability in our local firms as a lure for future investment and jobs—these things would produce a rebirth of Merseyside along the lines of Glasgow and Leeds, two cities with very similar historical problems," he says.

In fact, management and unions in the private sector all over Merseyside have largely grasped this.

Merseyside's greatly reduced industrial and commercial infrastructure is much more intact than first appears. Moreover, big employers such as Ford, General Motors, Royal Insurance, Littlewoods, Pilkington Brothers, Shell, BICC and Unilever have spent at least £400m between them in recent modernisation.

Above left: It used to be Liverpool Exchange Hotel and it stood on the railway station of that name. Now the lines have been filled in and cars park on the old platforms but the main transformation has been wrought with the hotel. English Estates has preserved the old frontage and station clock but built behind it the most modern offices on Merseyside. The region is short of such top-of-the-range accommodation

Left: Unemployed youths in Knowsley. The difficulties in creating work on Merseyside are being tackled long-term but will depend to a great extent on persuading more employers to set up there to replace those companies, and industries, which have left



A "new reality" in labour relations has turned Fords Halewood plant *into* what a company spokesman says is "the jewel in he crown" after years of being "the thorn in Ford's side."

At Cammell Laird, now joined with the Vickers yard at Barrow as a result of a privatising management buy-out, Mr Mike Murden, the managing director, reports a "total transformation in industrial relations." An offer of equity to employees saw 90 per cent of the workforce becoming shareholders, investing an average of £600 each.

Significantly, numbers employed, which had fallen to 1,300 from 3,500 in the recession, have now risen by 200.

What many in London perceive as Liverpool's whine for more money belies support for Merseyside that is actually massive—a staggering $1.5bn a year in grants, loans and benefits.

Because of non-cooperation by the city council, significant sums from this total are channelled into major projects directly through the Merseyside Development Corporation or the Liverpool Task Force.

Mr Nicolas Ridley, the latest Environment Secretary, says: "We cannot bear to see chaos and unemployment on the present scale in Liverpool. Some would say we should let them stew in their juice until they see the need to change, but no government has that option. It would not be tolerable in a civilised society."

Mr Ridley believes that the fundamental local problem is leadership. He says this is needed to pull together all the disparate parts of the Merseyside community and get them working in the same direction. He says the present image is appalling and off-putting to any outsider.

To "lever" private sector money for job-creating investment in the sort of ratio—about £3 for every one from government—achieved elsewhere, he thinks that the community needs to demonstrate that it is trying to pull itself up by its bootstraps, rather than have its lead local authority engage in constant public warfare with the government.

He will not say what he has in mind longer term while Liverpool's labour councillors are still in the legal process of appealing against disqualification from office for last year's rates rebellion. Moreover, he is still making up his mind on how urban policy generally should evolve from here on.

A lot is therefore going to depend on what happens in the next few months: on whether the councillors' disqualifications proceed, to be followed by by-elections, and indeed, on whether they go quietly even then. If their appeals succeed, the Liberals will chip away at them again in May, though sheer demography and the flight from the city of so much of Merseyside's middle-class, will make the job hard.

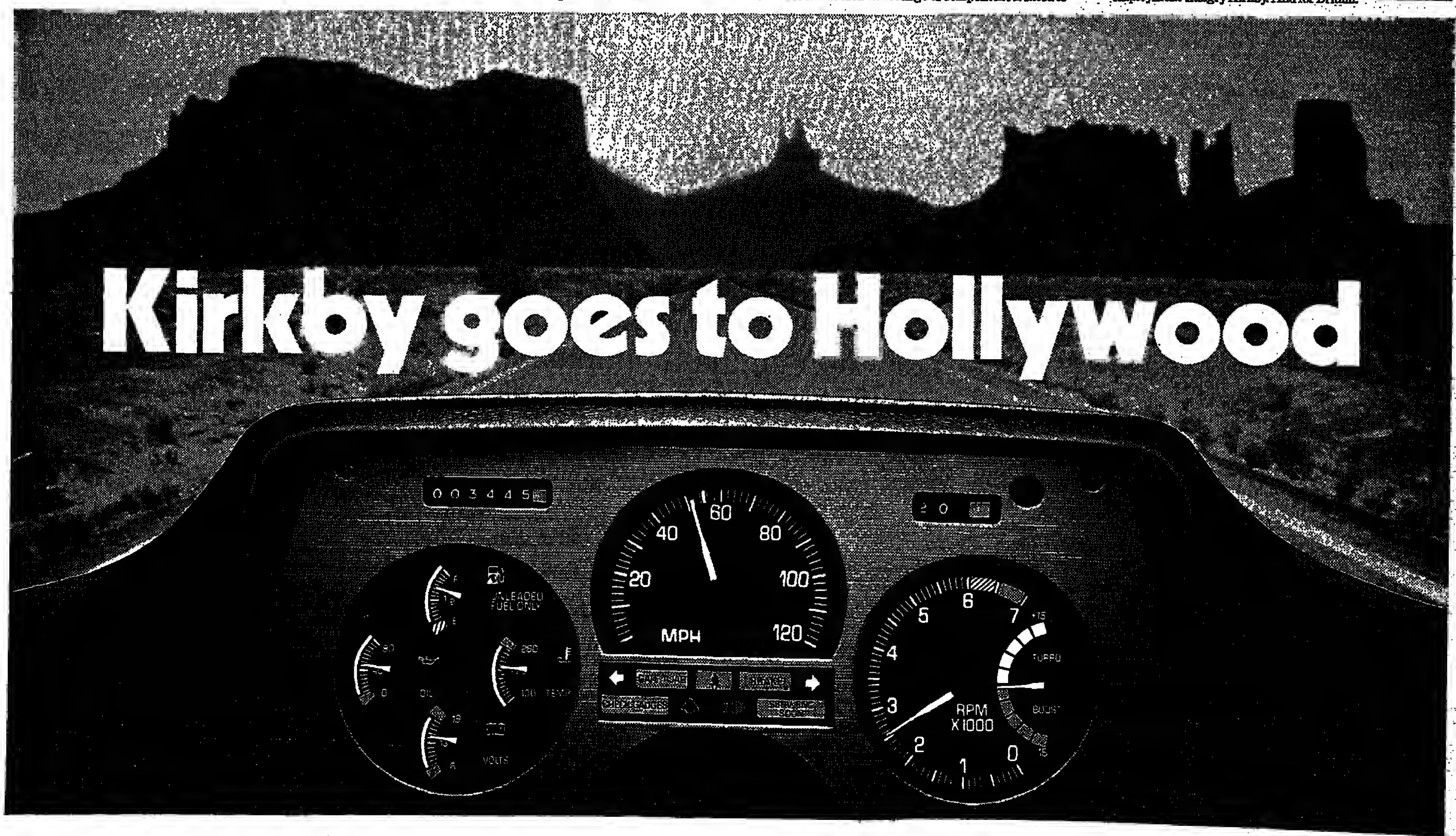
What's so special about this impressive new electronic instrumentation in America's latest Pontiac Sunbird you may ask? The answer is it's designed and built here in Britain. And, what's more, represents a record export order for one of Britain's hardest hit areas of unemployment.

The area is Kirkby in Knowsley, Merseyside. And the success belongs to Delco Electronics. As well as being Kirkby's biggest employer, Delco Electronics is one of General Motors' most successful British Component manufacturers.

To land the £6.8 million annual contract for 140,000 of these Kirkby designed, Kirkby marketed and Kirkby built instrument clusters, they had to face and beat some of the toughest European, Japanese, Canadian and US component manufacturers. And judging by other US interest being shown, more export orders and business opportunities for Kirkby could be on the way.

But export success is nothing new to Delco Electronics. At least one of their wide range of components is fitted to virtually every car produced in Western Europe. And some 70% of their business contributes to the total of more than £100 million which GM's British component manufacturers together earn for Britain each year. So our continuing investments here – in new robotics, laser technology and computerised vision systems allowing even tighter quality control – are really paying off. Not just for us. But for employment-hungry Kirkby. And for Britain.

GM



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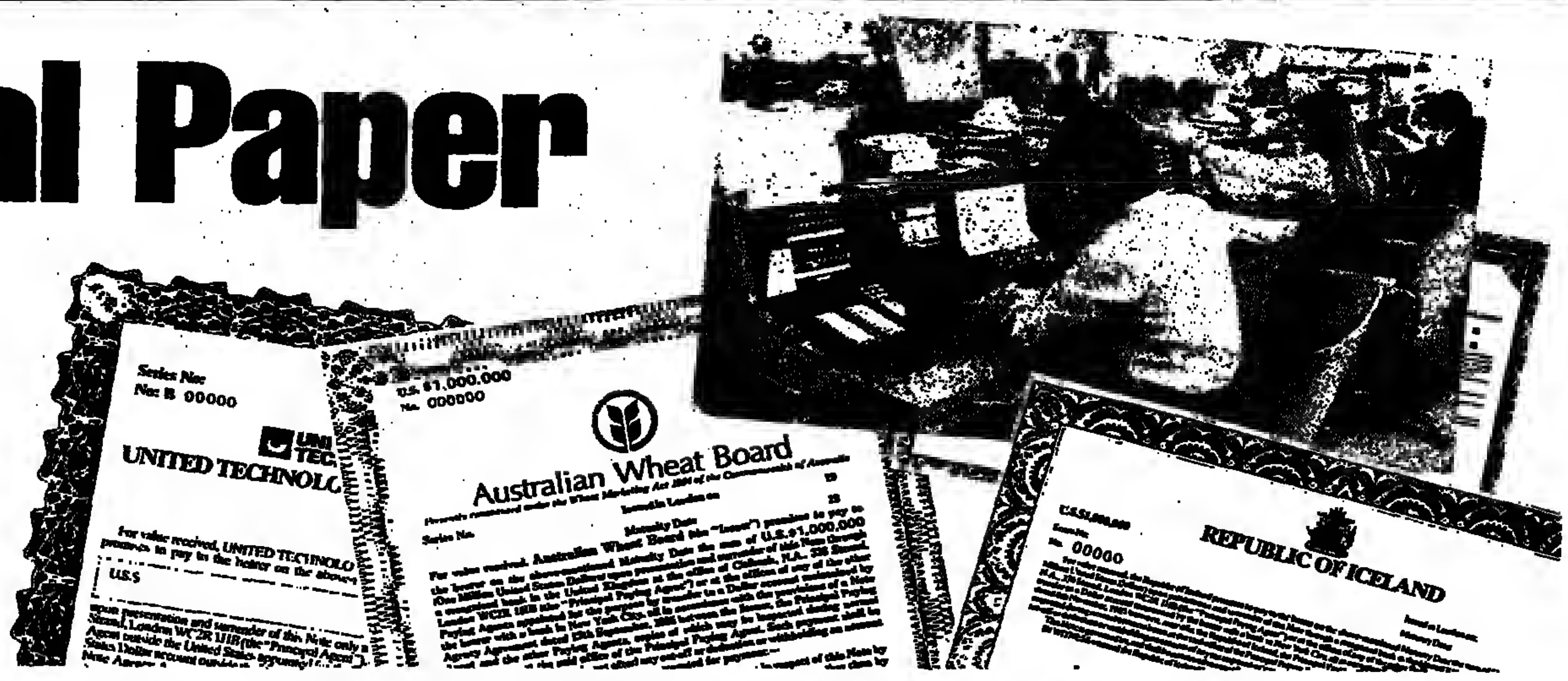
Commercial Paper



Corporate treasurers in the US, and increasingly in Europe, no longer have to turn to banks each time they need a loan, but can borrow instead from the money market. Growth of this new business is further evidence of the trend towards securitisation of financial markets.

A fashion set to stay

By Peter Montagnon

FASHIONS HAVE always come and gone in financial markets, but one that is very much alive in 1986 — and in the opinion of many bankers probably here to stay for the long haul as well—is that for issuing and dealing in commercial paper.

Such an activity is well in tune with the overall trend towards securitisation of financial markets. If international bond issues have grown to replace syndicated credits at the long-term end of the debt markets, so commercial paper is now gradually ousting short-term bank borrowing at the other end of the maturity spectrum.

Once a business basically confined to the US which now boasts a market with some $330bn in paper outstanding, commercial paper dealing has started to spread rapidly into the international arena. Paper outstanding in the Euromarket has grown from virtually nothing at the start of the decade to an amount estimated at between $25bn and $40bn today.

Several countries, including the UK, France and the Netherlands, have opened their own markets to commercial paper. Last month even Turkey announced that it planned to start a commercial paper market as part of an attempt to reform and modernise its domestic financial system.

Commercial paper is essentially short-term debt issued by a company, or in certain cases sovereign governments and their agencies, that is bought directly by investors in the money markets. It is negotiable which means it may be traded in the secondary market, but a key point is that the development of a commercial paper market changes the role of the banking system.

When he uses the commercial paper market a corporate treasurer no longer turns to his bank for a loan each time he finds himself temporarily short of cash. Instead he borrows directly from the money market by issuing commercial paper. Similarly, if he finds he has a temporary surplus of money, he may use his cash to buy commercial paper rather than placing the funds on deposit with the bank.

The actual business of borrowing and lending thus bypasses the bank itself. The bank in the middle no longer performs the role of custodian of other people's money. Instead its job is confined to that of dealer or broker whose task is to bring together issuers and investors.

The development of commercial paper markets around the world is therefore an integral part of what has become known as the disintermediation of the banking system — the process whereby banks are squeezed out of the job of mainstream borrowing and lending by the securitisation process.

In the Euromarket such a development became natural after the onset of the developing country debt crisis in 1982. The debt crisis had two immediate effects on the balance sheet of the system as a whole. First it made the books less liquid because a lot of loans were suddenly tied up in reschedulings and unlikely to be repaid for many years to come. Second, financial markets generally grew to perceive that big banks were not really quite such good credit risks as they were cracked up to be.

As part of their response to the problem banks sought both to reduce their balance sheets and to make them more liquid. They thus became less interested in lending, especially if it meant taking assets on to the books which could not easily be sold off at a later stage. They also became more interested in activities — such as dealing in securities — on which they could earn a fee as brokers or traders.

For their part borrowers realised that banks might no longer be the cheapest source of credit. The debt crisis meant that the banking system's own reference rates — the Eurocurrency deposit rates on which most international lending was traditionally based — had been driven up relative to other interest rates by a perceived market deterioration in the standing of banks.

Add to this a desire among investors to diversify their own risks away from the banking system by buying other forms of debt than straightforward bank deposits and the stage was set for a rapid evolution of commercial paper markets around the world.

Yet, the development of a Eurocommercial paper market has not happened without a struggle. Even today it is still only just emerging from its infancy. Particularly this year, however, growth in business has been so dramatic that most bankers now accept that commercial paper is a market with which they will have to contend over the longer term.

A key indication of the market's new-found respectability came this summer when General Motors Acceptance Corporation (GMAC), the financing arm of the US car company, decided to turn its attention to Europe.

GMAC has long been established as the largest single borrower in the US market where it accounts for some 10 per cent of all outstandings. Its then treasurer, Mr Robert Almon — he has since moved to Salomon Brothers — noticed that at times it was possible to raise money even more cheaply in the Eurocommercial paper market. GMAC started selling paper in Europe in July and within two months its borrowing outstanding had risen to around $1bn, a level it has held ever since.

The arrival of GMAC served not only as a boost to an already fast growing market. It also set a seal of permanence on an activity which until this year had been very much in a phase of experimentation and transition.

In the early days of the Eurocommercial paper market the emphasis had been very much on the establishment of loan facilities which tied the issuance of commercial paper or euronotes to a specific backup line of credit from commercial banks. Under these facilities paper is auctioned through a tender panel of institutions which also undertake to provide credit if paper cannot be sold below a pre-determined yield.

Such a system served several purposes. First, it was designed to attract banks into underwriting at low fees by offering them the chance to acquire paper in the auctions which they could then sell to their customers at a profit. Second, it gave some assurance to both borrowers and potential investors that the system would always function.

Borrowers knew that they could fall back on bank loans if the auction failed. Potential investors knew that the underwriting banks would always bail them out if the borrower could no longer sell his paper in the marketplace.

A feature of activity this year, however, has been a marked decline in the popularity of this kind of structure. The tender panel system has fallen into disrepute for a number of reasons. One is that as the market has become more sophisticated it has been easier for borrowers to determine which are the banks that really do have the capacity to distribute the paper and place it with end investors. There is little point in inviting those that do not to participate in a tender panel auction as they may end up acquiring paper at unrealistic prices and then dumping it on the market, distorting the overall price structure.

A more important consideration still may be simply that the tender panel system has outgrown its original purpose of offering security to borrowers and lenders alike. Though it is impossible to obtain precise figures on purchases of paper by end-investors, it has become abundantly clear that the numbers of corporate treasurers, money market funds and other institutions prepared to buy such investments has grown considerably. For borrowers in this market the upshot is that it has become cheaper and more convenient simply to select a group of specially designated dealers and allow them to get on with it.

In the process the Eurocommercial paper market is already entering a phase of its development where an initially large number of players is being whittled down to a more select few who can demonstrate proven expertise in handling the business. There are some 80 banks active in the Eurocommercial paper market, but the large bulk of the business is handled by the main US investment banks plus a sprinkling of British and European institutions, most of whom are also active in the international bond markets. By and large Japanese

Continued on Page 2

CONTENTS

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Commercial Paper 2

US Commercial Paper

Banks fight for share of oldest market's growth

CONTINUING BRISK growth of volume and new products from issuers and an ever-widening range of investors gives e youthful and nimble character to the US commercial paper market, grandfather of them all, which belies its great age, maturity and huge size.

Some $322.6bn of commercial paper was outstanding in the US in August of this year, np 15 per cent from a year earlier, 33 per cent from the beginning of 1985 and 550 per cent from a modest $50bn 10 years ago, itself a five-fold increase from 1966.

Commercial paper outstanding ($ million)

Date	All issuers	Total Financial companies	Total Non-financial companies	Total Bank-related
Jan 1985	241,813	171,335	70,478	45,183
Feb 1985	246,232	174,507	71,725	45,024
March 1985	247,603	176,812	70,791	45,638
April 1985	255,913	180,591	75,322	44,585
May 1985	259,253	181,645	77,608	45,421
June 1985	259,571	182,815	76,756	45,505
July 1985	265,863	187,473	78,390	43,310
Aug 1985	271,857	194,407	77,450	45,062
Sept 1985	278,386	200,987	77,399	45,557
Oct 1985	283,464	199,531	83,933	44,647
Nov 1985	292,023	205,886	86,137	43,459
Dec 1985	293,909	213,739	80,170	46,380
Jan 1986	297,704	212,097	85,607	38,828
Feb 1986	297,423	213,590	83,833	38,423
March 1986	298,885	218,742	80,143	38,361
April 1986	300,309	221,789	78,520	39,355
May 1986	310,364	230,276	80,088	40,584
June 1986	314,598	234,938	79,660	41,715
July 1986	313,976	232,718	81,258	40,839
Aug 1986	322,648	239,498	83,150	42,204

Research associate: Rivka Nachoma

The instrument's basic attraction has carried through the 100 years or so since the first commercial paper was issued: it is one of the simplest, quickest and cheapest ways to raise money in the credit market.

Open market trading of CPs began early this century, and by 1920 around 4,500 companies were issuing them regularly, with more than 30 houses acting as intermediaries. In the early 1920s, General Motors Acceptance Corporation became the first major company to place CP directly rather than through dealers. Today, GMAC accounts for roughly 10 per cent of CP outstanding.

Growth has not followed a straight line, however, as CPs popularity had ebbed and flowed and the market has had to cope with a few spectacular difficulties from issuers. Veterens still talk of June 21, 1970, the day Penn Central Transportation Company filed for bankruptcy leaving $82m of CP outstanding. Tha railway's problems made investors acutely conscious of quality, which in turn made it hard for a while for many other companies to refinance their CPs as they matured.

Other rough periods for the CP market came in the 1970s with the collapse of Franklin National Bank and rocky performances from real estate investment trusts. But high and volatile interest rates in the late 1970s brought new business to tha market as both issuers and Investors concentrated on short maturities to avail themselves of tha latest rates.

Commercial banks have perhaps suffered more than any other institutions from the growth of commercial paper. From supplying 87 per cent of short-term credit to non-financial companies 20 years ago, their share has fallen well below 70 per cent.

They have tried to fight back by offering themselves as commercial paper daalers, hut have had one hand tied behind their backs with legal red tape. Regulatory enthorities ruled long ego that CP was not a security. The implication was that banks could issua it without violating the Glass-Steagall Act which lays down the laws separating commercial banks from investment banks.

However, banks were forhidden to underwrite CP issues or hold inventories, so they have fully to distribute new paper on its first day of issue.

Undeterred by the disadvantages compared with investment bank CP dealers, Bankars Trust moved aggressively into the market eight years ago. The Securities Industry Association, determined to har banks fom its turf, quickly took the matter to court where it still languiahes.

Meanwhile, Bankers Trust, as tha leading hank in the husiness, has carved out a niche with about 70 issners, putting it toward the bottom of the Top Ten dealers. In contrast, Merrill Lynch is the top firm with around 400 issues and Goldman Sachs second with about 350. In total, there are some 36 dealers.

CP, is none the less, important to commercial banks. It helps them to maintain relations with corporate clients in an invironment in which more and more of tha banks' services are being poached by other entities. Moreover, it gives the hanks e platform from which to build other investment hanking services sbould, as seems likely, the traditional demarcation between commercial and investment banking be redrawn. Through CP, banks can show clients they can run successful trading desks and distribution systems.

"Commercial hanks would be formidable competitors if the restrictions were lifted," one senior investment hank CP executive said. "They wonld use CP to claw back the short-term relationships they have lost to us."

The determination of US banks to compete is shown in their suhstantial efforts in the hudding European CP market where they are, of course, not hamstrung hy the old, but steadily eroding, US distinctions between types of banks.

The development of the Euro-CP is watched with keen interest by dealers and issuers alike in the US. Broadly speaking, the European version has tended to develop around maturities of say six-to-nine months, because these reflect the traditional tastes of European investors.

In contrast, the bulk of US CP runs for 30 days, although legally it can run 270 days. Inoovation in the form of interest rate swaps is allowing issuers to lock in interest rates for up to five years.

Generally speaking, Euro CP is running about 10 to 15 basis points more expensive than US rates, hut a number of issuers bave been keen to try the European market as a way to get their paper out to new investors.

Many US dealers say they wonld welcome the day when the two markets converge on cost, and the European market has developed a mature roster of issuers and investors. Then they would he able to efficiently work the two markets in tandem to place paper.

Meanwhile, heightened competition has already come to the US market in another form. There has been a growing trend over the past few years for issuers to demand co-dealerships. The theory is that issuers will get lower costs and better service because they will be ahle to compare directly the performance of several dealers on the same issue.

Almost all dealers have been forced to accept this departure from the previously cosy set up of solo dealing, altbough they have tried to make the case that co-dealership carries some bidden costs through redundancies of service.

The conspicuous hold-ont has been Goldman Sachs, whicb, competitors say, has lost some business from refusing to join co-dealerships. However, it has recently been forced to bend a little in some cases by, for example, underwriting a CP issue whicb is identical to another dealer's except that it is done for a different subsidiary of the same issuing corporation to preserve the facade of sole dealership.

Another distribution trend has been away from direct placement. Three years ago, for example, 52 per cent of CP was placed directly by big corporate issuers such as GMAC. But that proportion has fallen to 46 per cent which reflects the use of CP spreading to smaller and less well known companies. Simply, big issuers wbo can go it alona already are.

"It's cheaper for many issuers to rent our distribntion channels rathar than set np their own," a leading commercial bank CP official said.

Dealers are also looking to new issuers from other areas besides smaller companies. Prime candidates are sovereign borrowers sucb as Canada, Sweden and New Zealand which have already come to the market.

Another area is US mnnicipalities and other public entities which traditionally bad enjoyed raising much of their funds in the tax-free bond market. But they are losing some of these privileges under the latest US tax reform, forcing them to broaden their sources of financing. Nallie Mae (the New England Education Loan Marketing Corporation) has already launched a $100m issue through Chemical Bank.

Private placements of CP are growing because they circumvent the tight restriction requiring funds from public CP to be used for current corporate purposes. Another new area of the market is unrated CP.

There is also growing use of CP programmes to provide short-term finance for takeovers until bond issues can be launched. This has been one of the spurs to the escalating size of programmes making a $1.5bn issue not unusual.

And finally, on the investor side, money market mutual funds have been showing a growing appetite for CP at the expense of bank certificates of deposit. The leading 75 money market mntual funds currently bold about $65bn of CP, placing—if indirectly—an old established instrument in the hands of new investors.

Roderick Oram

In the commercial paper section of Citicorp's London dealing room.

A fashion set to continue

Continued from Page 1

institutions have stayed clear of the market, though some bankers believe that they may be poised to enter it in a big way. This would ensure a new burst of growth in activity.

What is clear, however, is that the number of borrowers anxious to tap the market is growing all the time. Euro-commercial paper offers a number of advantages over its US counterpart. First it can be cheaper; second it deals in maturities slightly longer than those prevalent on Wall Street where most paper has a life of three months or less; third it helps attract a new range of investors; and fourth it is not absolutely essential to have a credit rating from the main US agencies Standard and Poors and Moody's though such ratings are becoming more and more common.

Yet, despite the evident buoyancy of the market a number of challenges lie ahead. One is that the market yet has to discover whether the enthusiasm for Eurocommercial paper dealing proves infectious enough to stir up interest in national markets, like the UK where the new sterling commercial paper market has got off to a relatively slow start. Another is that dealers in commercial paper who hava gone to considerable tronble to develop an investor base have yet to see whether the market is solid enough to survive the sort of downturn that might occur if short-term interest rates were ever to turn sharply up. There is little doubt that the development of the market over the past two years has been helped by tha progressive decline in interest rates which has made securities investments attractive.

Finally, and most important, it is still not clear how viable tha Eurocommercial paper market is in terms of profitability. The giant market in the US is dominated by harely half a dozen major dealers. In Europe, competition is now frenetic dozenmajor dealers. In Europe, such a position for themselves in the international marketplace. By its very nature commercial paper is a high volume, low margin business. Its profile and position relative to other markets at the end of the day will depend crucially on whether the main participants can find a means of ensuring that it pays its way.

Samuel Montagu
has been appointed to distribute Sterling Commercial Paper and CDs under programmes exceeding £2 billion

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Rating Agencies

US groups cast eyes on Europe

IN THE Euromarkets a borrower's name once meant everything. The legendary Belgian dentist who invested in Eurobonds bought the names he had come to know and trust, whether they were recognised brand names or just those of well-tried borrowers.

The traumas experienced by the bond market this year, coupled with more demanding portfolio management, are putting paid to some of the informality which has characterised the Eurobond market since its launch 20 years ago.

One of the key aspects of this trend is the growing acceptance of credit-rating agencies. They have also been given a separate but related fillip by the growth of commercial paper markets in Europe, which are generally seen as requiring comprehensive rating systems if they are to become permanent.

The logic behind this belief is that banks have encouraged the growth of commercial paper markets as part of the drive to get loans off their balance sheets. If this is to work, banks arranging programmes must find non-bank end-investors to take up the paper.

Among these should be money market funds and corporate investors along the pattern of the US commercial paper market, of which ratings have been integral part. Fund managers and corporate treasurers, however, are unlikely to want to go to their boards to seek authorisation to invest in paper issued by a long list of companies.

Some of the names on such a list would be well-known as those of major companies from the same country as the potential investor's. But a board would probably be uneasy about deciding on many foreign names whose individual credit quality it could not judge. The process would also be cumbersome, for repeated requests would have to be made for new lists.

The argument of the rating agencies and of the banks is thus that ratings are essential for the development of a market.

But the obstacles, are formidable. By far the largest agencies—Moody's Investors Service and Standard and Poor's—are New York-based. They have aroused suspicion and resentment among non-US borrowers because their approach is seen as too oriented towards the US markets, with little understanding of European accounting conventions and management styles.

Both have sought to correct this in recent years and have launched an assault on the international markets. For several years S & P has had an office in London, now with a staff of five. Although they do include one full-time analyst, most analysis is still carried out from New York.

S & P's policy is to rate each separate debt issue individually, so it regularly issues new ratings of Eurobonds. It has also rated about 50 Euronote and commercial paper programmes, of which about half are by US borrowers. S & P does little direct marketing but says the level of inquiries from companies interested in being rated is high and rising.

Moody's opened an office in London this year and is concentrating on the short-term markets. The office is similarly staffed by five people with analysts still based in New York. Moody's issues ratings for each borrower and once a short-term paper rating is issued it applies equally for any issue by the same borrowing vehicle anywhere in the world.

It has rated about 140 companies which have Euronote or commercial paper programmes representing just under a quarter of all announced programmes. Of the rated borrowers, nearly two-thirds are US-based.

Clearly there is still broad scope for new business for those and any other rating agencies. Not only is the Euro-commercial paper market still expanding but domestic markets are beginning in several European countries which would appear on the surface to provide scope for new domestic rating agencies such as have sprung up in Japan and Australia.

In practice, however, it is extremely difficult for new rating agencies to get off the ground. New entrants must be seen to be absolutely independent of market participants, and they are likely to face the proverbial chicken-and-egg problem.

Companies are unlikely to open their books and innermost workings to an agency which does not have a well-established track record of integrity and judgment. But given this understandable attitude it is difficult to achieve such a track record.

Another danger is that rating agencies, to attract new business, could be over-generous in their ratings, thus defeating the object of the exercise. It is also difficult to attract analysts of the required calibre.

Although the UK authorities would probably welcome a domestically-based agency the only new contender to emerge in London so far is EuroRatings. It's largest shareholder, with 40 per cent, is to be Fitch Investors Service, the third-largest US agency. It plans to be up and running soon and has already hired analysts in London.

EuroRatings is intended to go further than its two US rivals in presenting a more international face; but it has had problems in determining who, other than Fitch, is to hold a stake in it. British and Belgian companies are currently committed to participate, but Australian Ratings has pulled out after being expected to take part.

One problem faced by rating agencies in the Euromarkets is the difficulty of contacting end-investors in what are traditionally discreet, secretive fields. This has been particularly true of the Euro-commercial paper market in which the identities of investors have been closely guarded by banks seeking to build up their distribution capabilities.

It does appear, however, that the US agencies are gradually adapting to European needs without compromising the integrity of their ratings. One treasurer, whose company was given the top commercial paper rating by both agencies, said he found them to be intelligent and to have good methodology and satisfactory security.

"They have US spectacles on the world to a much lesser degree than in the past," he says. Rating is a long process, perhaps taking up a month or two of executives' time. But those who have gone through it believe it has paid off in finer pricing for the company's sterling commercial paper. And some who are potential investors say they would not ask for authority to invest in anything other than top-rated paper.

There are, of course, pitfalls. The most obvious is the risk that after going through the rating process a company finds that its rating does not match up to its own estimations of itself. There are also costs: as a rough guide, Moody's charge $10,000 for each issuing entity for a new issuer of Euro-commercial paper, with a surcharge for accessing the US market.

In the US fees are based on the amount of paper outstanding. S & P takes a different approach; its fees are basically the same worldwide, with a $25,000 initial fee for the first issue of debt and small fees for each additional debt issue.

Fees are lower, however, for smaller programmes such as in the Euro-commercial paper and sterling commercial paper market.

It seems likely that more and more European companies will swallow their nationalistic pride and pay up.

Alexander Nicoll

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The Bank of Tokyo, Ltd. (New York Branch) LIBOR—Based Floating Rate Certificate of Deposit	BEAR STEARNS The Bear Stearns Companies Inc. Commercial Paper Program	Boise Cascade Corporation Commercial Paper Program	Burlington Northern Inc. Commercial Paper Program	$165,000,000 C.I.T. Group Holdings, Inc. Medium-Term Notes	CPC Capital Inc. Unconditionally Guaranteed by CPC International Inc. Commercial Paper Program	Chrysler Capital Corporation unconditionally guaranteed by Chrysler Financial Corporation Commercial Paper Program
$500,000,000 CHRYSLER Medium-Term Notes	Dai-Ichi Kangyo Bank, Ltd. (New York Branch) LIBOR-Based Floating Rate Certificate of Deposit	DAI-ICHI KANGYO BANK (CANADA) THE DAI-ICHI KANGYO BANK, LIMITED Certificate of Deposit Program	Deutsche Bank Financial Inc. Deutsche Bank AG Commercial Paper Program	DOW The Dow Chemical Company Short-Term Note Program	Eastman Kodak Credit Corporation Commercial Paper Program	U.S. $150,000,000 Export Development Corporation Société pour l'expansion des exportations Medium-Term Notes
Federal Business Development Bank Banque fédérale de développement Canadä Commercial Paper Program	$325,000,000 Fleet Financial Group, Inc. Medium-Term Notes Due from Nine Months to Fifteen Years from Date of Issue	The Fuji Bank, Limited Certificate of Deposit Program	$5,000,000,000 General Motors Acceptance Corporation Medium-Term Notes	Hasbro, Inc. Commercial Paper Program	Hokkaido Takushoku Bank, Ltd. (New York Branch) Federal Funds-Based Floating Rate Certificate of Deposit	U.S. $500,000,000 IBM Credit Corporation Eurocommercial Paper Program
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The Kendall Company Unconditionally Guaranteed by Colgate-Palmolive Company Commercial Paper Program	Kingdom of Spain Euro Commercial Paper Program	Kingdom of Sweden Sovereign Note Program	Lucky-Goldstar International (America), Inc. Commercial Paper Program Chemical Bank	MCA $250,000,000 MCA INC. Medium-Term Notes, Series A	MCA MCA INC. Commercial Paper Program	Mitsubishi Bank, Ltd. (New York Branch) LIBOR-Based Floating Rate Certificate of Deposit
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Eurocommercial paper

Across the threshold of credibility

THE EUROCOMMERCIAL paper business is only just getting under way. The $30bn of paper outstanding in the market represents only a tiny fraction of its total potential, in the view of one practitioner, Mr David Pritchard of Citicorp.

The well-established US market commercial paper by contrast accounts for some 18 per cent of all private sector debt in that country. Applied to Europe, that ratio would suggest scope for a $200bn market in Eurocommercial paper, but if one adds on potential non-private sector and non-European borrowings, the real potential size of this market could be as much as $400bn to $500bn, Mr Pritchard says.

Even in the heady mood of optimism which abounds in the commercial paper market today, many bankers would not go quite as far as this, but as more and more programmes come on stream—some 250 borrowers are now thought to be active in the market—it is very clear that the Eurocommercial paper market has passed the credibility threshold. Though it still has a long way to develop, it can no longer be described as an infant and experimental market.

What are now also becoming clearer are some of the characteristics the market is likely to adopt as it moves towards maturity. Two in particular stand out. The first is that this is unlikely to be a market in which much secondary trading takes place. Basically, borrowers expect their dealers to place paper with investors and, by and large, experience has shown that investors hold on to it until maturity. The second is that this is a market that relies essentially on high calibre dealers, well able to distribute and place the paper it has on offer.

In the early days of the market this was not always the case. As short term interest rates fell last year, commercial paper could be used for speculative position-taking in the money market. A dealer could buy and hold while rates fell and then sell at a profit in the secondary market. Now that rates have stopped falling, that kind of exercise no longer works, and in the process real commercial paper skills have had to be developed.

Paradoxically, one of the great concerns of would-be investors in commercial paper is liquidity. Without a particularly active secondary market, it seems at first blush as though the prospect of the market being able to satisfy this need for liquidity is diminishing as it develops its placement skills. But according to many dealers this argument misunderstands the type of liquidity that investors really want. So long as the dealer himself is always prepared to buy the paper back, the investor is assured of an ability to turn his investment into cash at any time. This is the way most dealers now work.

"This market is conceived as a placement market," says Mrs Rosemary Carawan of Swiss Bank Corporation International. "You certainly need liquidity, but as long as investors got a fair two-way price, then that's fine. Only occasionally do we have our two-way price hit."

Indeed, one of the criteria that borrowers now examine when considering the expertise of an individual dealer is to see how much, if any, of their paper is circulating in the secondary market. A dealer who habitually dumps paper with professional traders is regarded as suspect because the risk is that in the process the price of the paper may get distorted. Moreover, one key objective of a Eurocommercial paper programme that of attracting a new range of investors—is not being fulfilled.

It has become easier for borrowers to apply this test in 1986 because final investor demand for Eurocommercial paper has been growing as the education process has got under way. The market has no reliable figures to show who the final investors in commercial paper really are, but anecdotal evidence from almost every side suggests that more and more of it is finding its way into the hands of genuine investors such as corporate treasurers, insurance companies, money market funds and central banks (though the latter tend to buy only sovereign risk paper). The proportion of paper being bought by the banking system has declined markedly.

But the job of the dealer has become much harder as this process has continued. Some dealers spent a lot of time at the beginning building up a long list of mandates from borrowers wishing to sell commercial paper, but as this list grew they lacked the resources to service the programmes properly. The result was that they tended to concentrate on holding up new programmes at the expense of the older issues on their books. As borrowers noticed this, some have begun to alter the ranks of dealers designated to handle their paper.

One way of doing this is to increase the size of the programme and add new dealers. That gets round the embarrassment of having to sack a particular dealer who is not performing. But there have also been some well-publicised sackings. Earlier this Autumn Credit Suisse First Boston and Goldman Sachs were dropped as Eurocommercial paper dealers by Prudential Corporation of the US, while the Australian Wheat Board dropped Merrill Lynch.

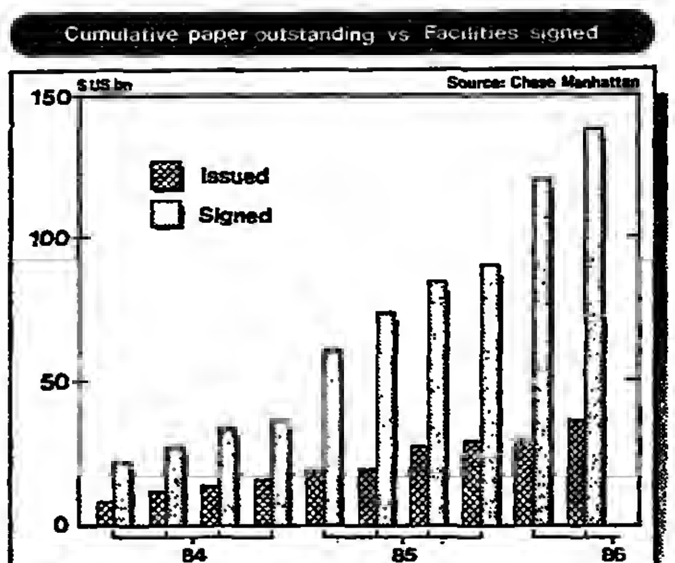
Bankers believe that there are more such shifts to come as part of a rationalisation of a market where there are still too many institutions seeking to offer a dealing service. It is still far from clear which banks will be the ultimate winners and losers in this process, but one lesson that is now being learnt in the marketplace is that the resources in terms of manpower and effort employed in the business have to be properly geared up to the volume of sales a dealer expects to take on.

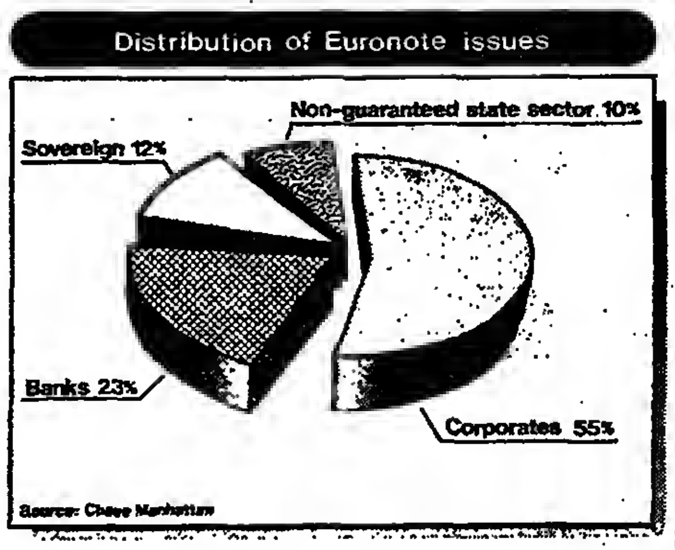
Commercial paper dealing has one great advantage for banking institutions in that it ties up very little capital, but it does seem to require a certain level of commitment. It is not necessarily sufficient to regard commercial paper dealing as simply a spin-off or ancillary to an existing product range.

Some of the newer entrants into this field such as UBS (Securities) and First Chicago say they are particularly conscious of the risks of trying to develop too rapidly. Both houses say they want to limit the total number of dealerships they take on to a total commensurate with the resources available to handle them. Even a limited number of dealerships can, however, produce dividends, not least because they involve constant and continuous contact with a borrower that may produce spin-offs in other areas of investment banking.

But the market remains highly competitive. With the shake-out among dealers expected to continue it is clear that most will want to hang on at all costs to the business they have won. Says Mr Warren Spar of Shearson Lehman: "It's more embarrassing to lose a client you already have than to fail to get a mandate in the first place."

Peter Montagnon





In November 1984 Sweden became the first major issuer in the Euronote market. LARS KALDEREN, Director General of the Swedish National Debt Office, reviews the implications

A borrower in short-term markets

SWEDEN'S RECENT history as an international borrower reflects the rapid development in the financial markets over the past 10 years.

In the late 1970s and early 1980 we negotiated a series of major bank credits which, in 1983 and 1984, were replaced by FRN issues. But the short-term markets were already then an attractive alternative to borrowers; while banks, as part of the process of disintermediation, became increasingly willing to provide backup and sell paper rather than extending credit.

Through the system of tender panels, we could maintain the support of our banking syndicate, at the same time as we could reach investors who would be reluctant — or legally unable — to buy our long bonds. Some might even later be attracted to our longer maturities. No doubt we were inspired by the successful World Bank programme of discount notes in the US. But for various reasons our entry into the Euronote market preceded our sovereign notes in the US by nearly two years.

Sweden became the first major issuer in the Euronote market in November 1984. The multiple option facility of US$4,000m provided for issuance of Euronotes on a best-effort basis. Notes were issued under auctions in which tender panel members were invited to submit bids. This system is still used to some extent, albeit with certain modifications to suit current market practices.

Due to financing needs, the programme was built up fairly rapidly, and in the spring of 1986 we had an outstanding volume of US$1.1bn. This represented a large proportion of the then existing market. The market response was enthusiastic and the total amount bid for was consistently three to four times the actual amount issued. Banks were asked to submit bids in relation to LIBID, which represented a major step away from the market's traditional LIBOR pricing.

During the first 18 months of the programme the average pricing was approximately LIBID less six basis points. In March 1986 the multiple option facility was renegotiated, and the amount was halved to US$2,000m.

At the same time, we opened up the possibility for tender panel members to submit unsolicited bids directly to the Kingdom. This enabled us to meet specific investor demand in a more flexible fashion. Since then the amount issued through tender panel auctions has decreased in favour of issuance based on unsolicited bids. At present $450m of auction paper is outstanding, while a further $375m is outstanding as a result of unsolicited bids.

The pricing has steadily improved to an average of LIBID less 13-15 bp on the total programme. Prices in the secondary market have improved in line with primary market issuance levels. The present issuing methods give us access to a broad investor base through the 10-15 houses who are actively and consistently bidding for our paper. As our funding requirements are limited at present, we will not issue paper except at the very best levels that can be achieved in the market.

In September 1986, the Kingdom launched its US$2,000m sovereign note programme in the US. The programme is operated on a traditional basis through three dealers, the First Boston Corporation, Salomon Brothers and Shearson Lehman Brothers. The programme has been built up slowly with an emphasis on establishing a price level consistent with our rating and credit-worthiness (it is rated A1+P1 by S & P Moody's). The amount outstanding is presently just below US$300m.

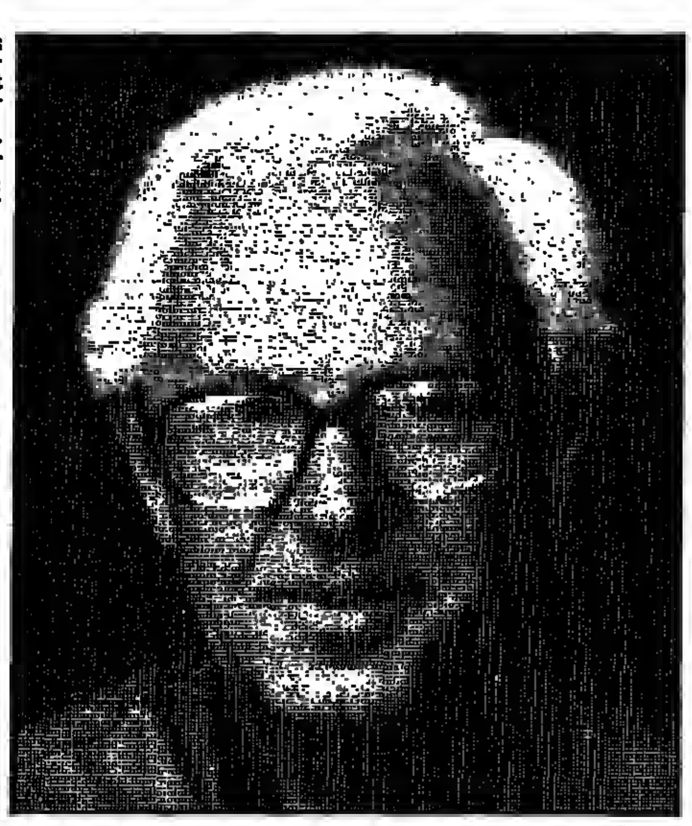
Initially the volume will be allowed to grow to around US$500m. The pricing achieved has consistently been below the index published by the Fed (for AA corporates). The programme is monitored very closely by the Debt Office, with respect to pricing as well as market presence. We endeavour to post rates every day, although we might not actively be looking for funds. The rates posted are always competitive in relation to other funding sources, ie the Euromarkets.

The two programmes will initially be run in parallel, but with a decreasing funding requirement we will focus more on the arbitrage between the two markets. At present, of course, the spread between, eg LIBID and the US CP rates is fairly narrow. The US market provides the cheapest funds at the very short end of the yield curve. This may change in time. Also, it is our experience that the two markets still have enough specific characteristics to attract different investor categories (the globalisation of money markets is not yet complete).

In short, reasons for our short-term funding are mainly:

- Riding the yield curve. The current outlook is for a fairly stable interest rate environment, which would indicate that today's positively sloped yield curve will remain for the foreseeable future.
- Flexibility. Variations in outstanding amounts contribute to even out foreign exchange flows.
- Cost advantage, compared to more expensive bank credits and FRNs.
- Diversification of markets and investor categories.

Out of the Kingdom's total outstanding foreign debt of about US$18bn, US$1.1bn, or around 6 per cent is short term. In time this might build up to 10 per cent, which should be a prudent proportion. We expect buyers to become increasingly sophisticated, something which will reduce the need for explicit (and expensive) back-up.



Lars Kalderen . . . four main reasons for our short-term funding

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The Euronote Association

Pressure grows for an index

ONE OF the by-products of the development of the Eurocommercial paper market has been a decline in the significance of the London Eurodollar deposit rates which have traditionally been the benchmark level for setting the price of international banking transactions.

Not only does most Eurocommercial paper trade at levels well below this rate; it can also fluctuate against it for reasons which have nothing to do with the standing of the borrower itself. For example, at times of crisis or threatened crisis in the international banking system, London Interbank Offered Rate (Libor) will tend to rise as the market's perception is that bank's have become riskier credits.

Eurocommercial paper rates can also vary in relation to Libor, depending on the movement of commercial paper rates in the US. Obviously the US rate is a key yardstick for any borrower or investor wishing to arbitrage between the two markets. Finally, some sovereign programmes are treated by investors as being akin to Treasury bills. In practice, rates on these programmes are bound to move in relation to the US Treasury Bill rate rather than to Libor.

Dissatisfaction with the use of a Eurodeposit-related benchmark has thus created pressure in some market quarters for an index to be developed that would be special to the Eurocommercial paper market itself. Because it would not be influenced by factors outside the market, such an index would allow valid comparison of yields obtained by different borrowers. It would be similar to the composite index calculated by the Federal Reserve Bank of New York for the US domestic market.

Last month the Euronote Association, formed earlier this year by dealers in the market, asked the Bank of England to help it compile such an index as well as to gather statistics on a market for which there are little precise figures available. The Bank said it would consider the requests but has not yet agreed to co-operate on an index.

One reason why the Association sought its help was because it was coming under pressure from a number of sources—such as specialist financial publications and newsletters—to permit the development of an index; but it felt that this could be dangerous, as a commercial sponsor might be subject to undue outsight influence over the weighting and composition of such an index.

Moreover, some dealers are worried that the very publication of an index would make it hard to place all but the best-rated paper, as borrowers would insist on their paper selling at best at only a marginal premium to the general index, which in some cases is unrealistic.

An index sponsored by the Bank of England would have the advantage of being neutral and impartial.

However, one consideration the Bank has to weigh up in considering its response is whether the market is either deep enough and mature enough to provide reliable prices on a continuous basis. There is little secondary trading and few borrowers issue paper every day, so it would be hard to obtain reliable prices. The upshot is that, despite the general dissatisfaction with the eurodollar benchmark, a viable index still seems a rather remote prospect.

Peter Montagnon

Innovative but not revolutionary . . . CLARE MARSHALL, Assistant Treasurer of the Export Development Corporation of Canada, summarises the benefits of the EDC's Euro Treasury Note Programme

Notes available every business day of the year

A YEAR-AND-A-HALF ago, financial institutions in Europe were saying it could not be done. The source of their scepticism? A streamlined Sovereign Treasury Note programme, developed by an issuer who wanted to: use Treasury Bills and not LIBID as the pricing benchmark; guarantee a secondary market; and allow the investor to choose the maturity date of his investment.

But Canada's Export Development Corporation (EDC) has shown that it can be done. Paper firmly priced off US Treasuries—with flexibility of term, as well as liquidity, a consistent yield, and the opportunity to utilise a continuous offering programme—can yield the results demanded by high-quality borrowers and satisfy the requirements of investors.

Indeed, the attractive rates EDC has been able to achieve through its Euro Treasury Note programme have seen its outstandings grow from zero in May of 1985, to $375m today. This paper is distributed to corporations, central banks and retail investors in areas of Europe, the Middle-East and the Far East.

There's nothing revolutionary about EDC's Euro Treasury Note programme; innovative perhaps, but each component used to develop this debt instrument is well known and understood in international markets. The impetus for developing the programme—dissatisfaction with then-current European pricing and marketing techniques for top quality borrowers—was not new either. In fact, for EDC's Treasury Division, the motivation for developing a new instrument boiled down to a single and pragmatic question: why should a triple-A North American Sovereign price off a single-A bank benchmark?

To get the answer it wanted, EDC realised it would have to depart from the Euromarket status quo. That meant abandoning LIBID in favour of US Treasuries as the benchmark off which to price each short-term issue. This enabled EDC, on the one hand, to capitalise on its blue chip credit status, and on the other hand, to offer investors a definitive and continuous spread off T-Bills.

But going the T-Bill route influenced more than just pricing; it shaped the direction of the entire programme. Investors had told EDC that they wanted a clean programme, so EDC implemented the grid note system, another long-standing and successful wrinkle of the US market. By eliminating the physical issuance of notes, EDC trimmed both the costs and the administrative burden to the investor.

Once EDC's programme had been streamlined in this manner, it became much easier to tackle the rigidity built into standard European debt instruments. Paramount here was the issue of flexibility of term; instead of dictating a standard short-term maturity period of one, three, or six months, the Euro Treasury Note programme leaves the investor the option of investing to the date of his choice. But maturity was not the only area to which EDC could introduce time flexibility. Because of the administrative ease of the grid note format, EDC was able to offer the investor same day, next day, or regular (two day) settlement.

EDC observed, in formulating its programme, that the tender panel process of issuing short-term debt in Europe could, at times, be unreliable and haphazard. Unreliable in the sense that tender panels were not required to identify or to place paper with end investors: all they were required to do was to bid for the paper at a level at which they thought it could be placed. Dealing through tender panels could be haphazard in that you, as issuer, had no control over the price at which investors bid for the paper, the price at which it was traded in the secondary market—if it came to that—and most important, the price at which it was placed. Finally, EDC reasoned that issuers would want their dealers to vigorously market their programme daily, not just every day or two as can be the case with tender panels.

That is why EDC opted for a continuous offering programme, administered by a network of select dealers. The advantages of such a programme allow both our issuing agents and the investor the comfort of knowing that EDC Treasury Notes are available every business day of the year, for any term up to one year, and at a consistent spread over US Treasuries.

Clearly, dealers play a critical role under such a scheme. The fact that they are in a position to market our paper each and every day is in itself important. But when you consider that EDC's Euro Treasury Note programme offers the investor his choice of term, a daily market presence takes on far greater weight. How else is an investor to become aware that he does not have to invest short of his requirement and then reinvest, or conversely, invest past his requirement and then sell on the requirement date, as is often the case under the fixed term? The point is, being able to offer the investor what he wants, when he wants it, is the difference between what was the status quo and EDC's programme.

EDC has relied heavily, and with a great deal of success, on Credit Suisse First Boston, Swiss Bank Corp, and the Union Bank of Switzerland to inform investors that the Euro Treasury Note Programme has a solution to a system which left them either exposed to interest rate fluctuation, immersed in cash management complications, or both. And we look to our newest dealers to do the same.

EDC has received overtures from numerous institutions interested in participating in the programme and last month two banks—Citicorp Investment Bank and County National Westminster Bank—and two investment dealers—Morgan Stanley International and Shearson-Lehman International—were added as issuing agents. In these four institutions, EDC finds two quality-rated banks that can easily fuse the Euro Treasury Note programme on to their existing marketing programmes, and two strong US investment dealers with extensive experience in placing US Treasury Bills. It is a relationship that is sure to dispel any perception that there is a Swiss retail concentration to the programme; in fact, 50 per cent of the Euro Treasury Note programme had been placed outside Switzerland even before EDC bolstered its team with these four institutions.

The Euromarket has changed considerably since EDC unveiled its programme in May of 1985. The Euro Treasury Note programme is no longer the only one of its kind; scores of hybrid programmes have surfaced, and the transplanting of many traditionally US techniques to Europe is now almost the norm, as opposed to the exception. It has been an interesting and provocative two years, all the more so since EDC found itself at the leading edge of what has become widespread practice. The challenge now, of course, is to stay at the forefront.

Irving Trust International Ltd.

are pleased to announce their commitment to the Euronote and Euro commercial Paper market by becoming market makers from 1st October 1986.

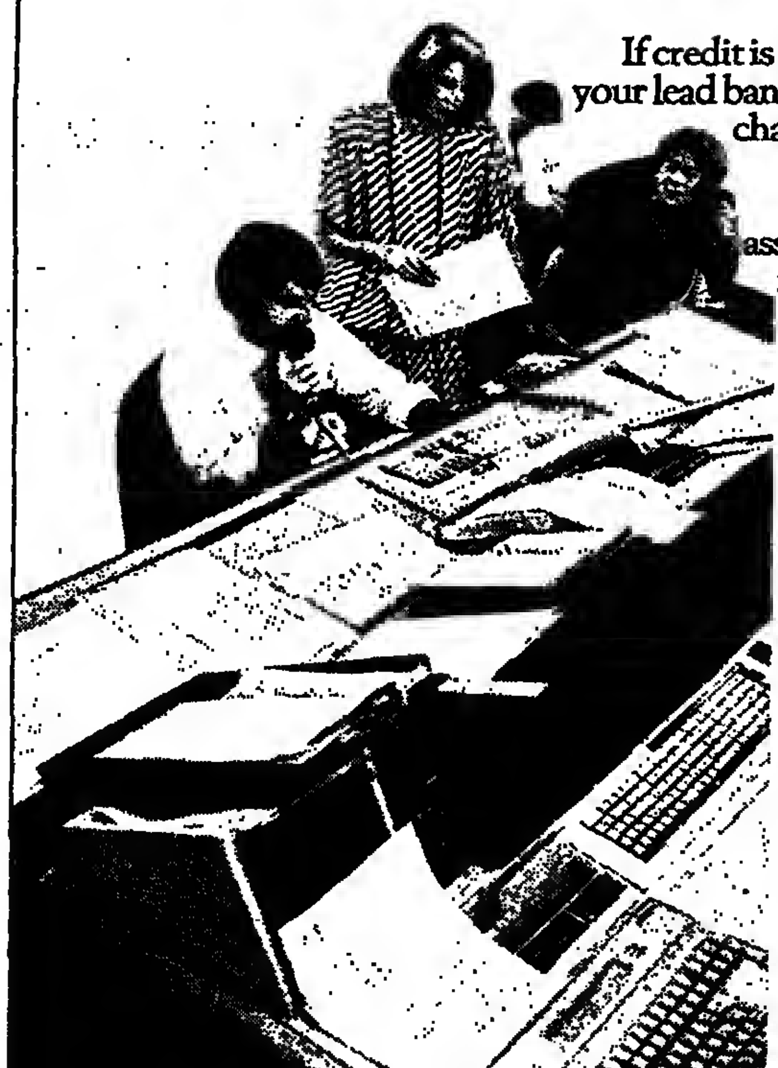
PART OF THE CONTINUALLY IMPROVING SERVICE FOR OUR CUSTOMERS

Contacts:

London 01-929 4121 — Mary Murphy, Sales, Trading
London 01-626 3210 — Paul Rivers, Origination
New York (212) 635 1280 — Patricia Orsini, Origination
Singapore (65) 534 4245 — David Turner, Origination and Sales
Tokyo (813) 595 1130 — Charles Wilson, Origination

Do your lead banks also lead the way in Euro-commercial paper?

Bankers Trust does.



Bankers Trust has played a major role in many Euronote and Euro-commercial paper programs established for high quality corporate and sovereign issuers, such as Unilever, the Kingdom of Sweden, Oesterreichische Kontrollbank and Credit National.

If credit is about all you can expect from your lead banks, perhaps it's time to consider changing one of them.

To Bankers Trust.

With over $52 billion in assets, we can and do supply credit in all its many forms.

But through our potent combination of investment banking skills and commercial banking strengths, we provide our corporate clients with far more than credit.

Our skills extend to corporate finance, management buyouts, loan syndications and yes, to the Euro-commercial paper market through our London subsidiary, Bankers Trust International, Ltd. Our track record is second to none in actively dealing in the Euro-commercial paper and Euro-note programs which have accounted for the majority of total notes outstanding to date.

One reason why we lead the way: our enviable position of being an active participant on both sides of the market, acting for issuers and investors alike.

It's our wide range of services in so many areas that has helped make us a lead bank for so many corporations. That's because the financial needs of the modern corporation are complex and interrelated. Such needs almost invariably require cross-disciplinary skills on the part of a lead banker.

Among the many services Bankers Trust offers:

Swaps. Bankers Trust is a universally acknowledged market leader in the intricate world of currency and interest rate swaps. Our team of specialists in London, New York, Tokyo, Hong Kong and Toronto completes an average of five deals every day.

Corporate Trust and Agency. Over 2,000 corporate and other entities depend on Bankers Trust to service over $150 billion in securities. We are the largest fiscal and paying agent in the international debt markets.

Trade finance. Our knowledge of government export credit programs and our expertise in the capital markets enable us to structure innovative trade transactions that give our clients a distinct edge in importing and exporting.

Options. Bankers Trust is a leader in interest rate and foreign exchange options, purchasing and selling options on both short- and long-term instruments. This strength enables us to design option packages specifically tailored to our customers' investment or financing requirements.

Today, any lead bank worthy of its position should be able to deliver all of these services. Which is why so many corporations have chosen our bank as one of their lead banks.

Bankers Trust.

Bankers Trust is one of the lead banks for Northeast Utilities, the largest electric utility in New England. In addition to being a major lender, we also provide a range of corporate finance, corporate trust and employee benefit services.

Bankers Trust Company
Merchant banking, worldwide.

Dashwood House, 69 Old Broad Street, London Kishimoto Building, 2-1 Marunouchi, Tokyo

Medium term notes

Europe is watching American programmes

WHEN A product is successful in any market, it is always difficult to imagine bow we existed before it came along. It is conceivable that, in ten year's time, medium term notes will be viewed in this way.

What, after all, conld be more natural for borrowers and investors than to issue or buy securities exactly when they want to, in the amonnt and maturity that they want, taking advantage of, perbaps, momentary market opportunities to do so?

Continuous offering along these lines is the basic principle bahind commercial paper, and has already spawned a market in maturities of longer than ona year in the US. Outstandings in the domestic medium term note market have swelled to some $40bn within only a couple of years.

In the Euromarkets, the debate has heen raging for more than a year about the possible lannch of a similar instrument. Borrowers want it, and investors seem to he keen provided the product is right. Investment bankers are certainly anxious to develop a new market. But bringing all these interests together bas been a slow process.

The first experiments bave begun and the proponents profess satisfaction with them. Bnt they reveal wide differences of opinion among market practitioners. There is disagreement on exactly who will he interested in MTNs, wbat they will expect of them once issued, and—depending on differing answers to these qnestions—bow consequently to structure Euro-MTNs.

Io the US, MTNs are offered continuously like commercial paper through dealers. Investors can typically hny paper of any maturity ranging up from one year. Most maturities are concentrated below five years. The US market has active benchmark issuars, sucb as General Motors Acceptance Corporation.

MTNs afford borrowers great flexihility. They can spread maturity profiles, issne amall amounts of debt to meet specific needs, reduce the fees and other costs of a bond issue, and capture exactly investors' requirements.

First Interstate, e hig MTN issuer in the US, became the first borrower to issue Euro-MTNs earlier this year; hnt it has done so in only small amounts. PepsiCo is the largest issuer so far, with abont $100m issued since its programme started ln October. Among other programmes expected to get under way soon after the time of writing were Nordlc Investment Bank and American Life Insurance. Finally, Sweden's Electrolux has issued $65m of multi-trancbe tap notes, a related but differently structured instrument.

PepsiCo's programma is modelled on the US market, and is structured strictly in accordance with the strong wishes of the borrower. It is also effectively an extension of PepsiCo's Euro-commercial paper programme, with the same four dealers being employed: Credit Suisse First Boston, Salomon Brothars International, Swiss Bank Corporation International and Union Bank of Switzerland (Securities).

PepsiCo's most significant desire in both programmes is that paper should be firmly placed with end-investors, with trading to he avoided if at all possible. To this end, PepsiCo forhids the four dealers to take principal positions themselves and to make prices to other professionals. The dealers will, bowever, make two-way prices to investors at all times in all maturities between ona and five years.

This structure is based on the belief that the MTN market will develop in the Euromarkets oo mucb the same lines as in New York. There is little trading of MTNs in the US. Instead, they are placed with institutional investors who idantify needs for specific maturities, often because of matcbed-funding techniques which aim to match the casb flows from investment boldings exactly to the payments whicb a pension fund, for example, must make to its pensioners.

Who buys US domestic MTNs

Banks	33%
Bank trusts	29%
Thrifts	29%
Insurance companies	13%
Corporations	10%
Inv. funds/pension funds individuals	15%

Source: Merrill Lynch

In Europe, these technlques are not as advanced. But they are expected to becoma more widely used. PepsiCo's experience so far reveals that there is varied demand from investors within tha one to three year maturity bracket.

It is clear tbat there is a substantial gap in the maturities of Euro-secnrities which MTNs could fill. By the time most longer-dated issues run down to maturities below five years, they are mostly locked up in portfolios and so are notoriously illiquid. Prices can therefore be very out of lioe with true market conditions, and a bid for a small amount will move prices substantielly.

MTN dealers followiog the PepsiCo format will constantly make prices based on US Treasury bond yields, and will be committed to honouring them wbatever the size of the order, up to a maximum agreed betweeo dealer and issuer. This aims to solve the prohlem of liquidity wbile not creating a trading market whicb liquidity would generally imply.

According to this formula, MTN investors would thns bold their paper to maturity, only deciding not to do so if there was a very marked change in market conditions or a fundamental change in investment strategy. If psper did flow back, the dealers' role would be to replace it, not to trade it to other professioaals.

This view of the market appears hroadly to be taken by many potentially leading houses, with some amendments. For the First Interstate programme, for example, CSFB has devised a series maturity structure to run alongside the existing one in wbicb paper of any maturity will be issued. This feature is designed to improve liquidity by setting predetermined dates on wbicb paper may mature, and fixing the coupon of paper meturing on those dates.

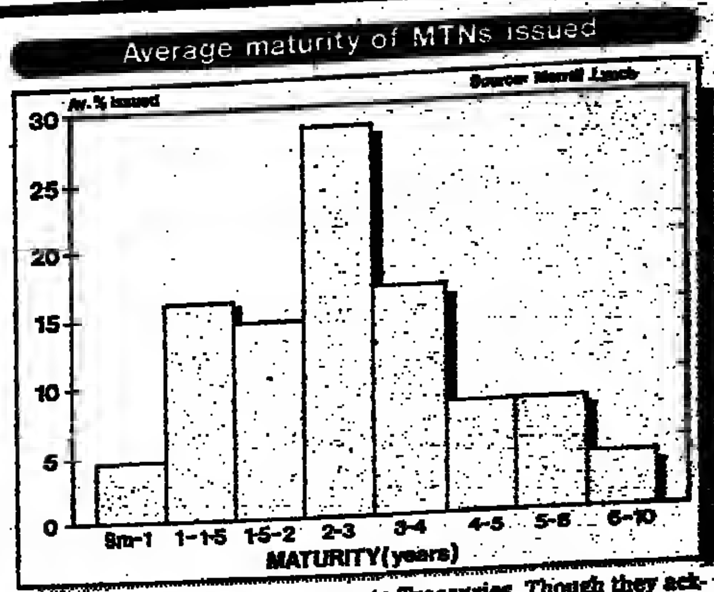
There are, bowever, significant opposing views wbich reflect differing interpretations of liquidity. Manufacturers Hanover, which is hasing its Euro-commercial paper market strategy oo heavy trading of paper, expects the MTN market also to develop en ective secondary market.

A different approecb again has been taken by Merrill Lynch. Although it sees e possibility for a Euro-MTN-market to develop along US lines—it dominates the domestic market—it has devised a new instrument whicb has some features of MTN.

Electrolux has a conventional MTN programme with Merrill Lyncb Capital Markets and Enskilda Securities as dealers. But it bas also issued $65m of mnlti-tranche tap notes (MTTNs), devised by Merrill as a means to correct what it sees as serious structural failings of the Enrobond market.

That Merrill should have committed itself to an alternetive instrument is surprising, given its dominant position in the domestic MTN market. Many investors, it believes, have become disillnsioned with the performance of Eurobonds in the secondary market, with yield margins above Treasury bonds often widening considerably from the spreads et which they were launched in the primary market.

MTTNs aim to prevent this perceived leak of investment flows from the Enrobond into the US Treasury market, by fixing the maximum spread to US Treasuries at which eacb tranche will trade. They also aim to aid liquidity by setting a core minimum amount, set for Electrolux at $50m, for each trancbe, with taps then operating up to a maximum amount. Prices visible on screens apply to any size of trade, and buyers of Electrolux three-year notes have already ranged across a broad spectrum of buyer and size.



Like ordinary MTNs, MTTNs are distributed through the dealership rather than syndicate system—avoiding dumping in the primary market—and have Eurobond features such as listings and small denominations.

Merrill sees MTTNs developing a large market of their own, regardless of whether an MTN market develops separately along US lines.

Some other investment houses are sceptical, however. They see MTTNs as making too many concessions to investors while unduly reducing the borrower's flexibility. Electrolux might just as well make bond issues with taps, they say, also casting doubt on the wisdom of making a commitment to maintaining a constant spread to Treasuries. Though they acknowledge the liquidity problems of the secondary Eurobond market, they see MTNs as fulfilling a different need.

Investors, according to this argument, will want the choice of variable amounts of different maturities. The liquidity to be sought by MTN investors will not be strictly a trading facility but the comfort of being assured that dealers will act responsibly, making consistent prices across the maturity spectrum.

Euromarket dealers may, however, be wary of undertaking to maintain liquidity in US-style MTNs, with potentially very small amounts of debt for any given maturity. After the traumas experienced by the Eurobond primary market professionals this year, the risks to the investment banks in establishing a new sector will contribute to its form.

Alexander Nicoll

Why our secondary market muscle can be of primary importance to your ECP programme.

Our competitors will claim they have the deepest investor base in the market.

Our competitors will insist that ECP will continue to survive solely as a placement business.

Our competitors will suggest they can provide liquidity without recourse to the secondary market.

Promises. Promises.

Manufacturers Hanover is one of the very few influential forces in the secondary market. And we are proud of it.

Our investors deserve liquidity. They know that we will consistently make the tightest bids and offer inventory at realistic spreads in any interest rate environment.

They also deserve supply – and we're providing it. Our distribution and trading capacity has made us the fastest growing ECP operation in the market (we have just taken on 9 new dealerships). These issuers know:

- We place primary paper with an effectiveness few other houses can match.
- We protect pricing levels using our significant secondary market presence.
- We employ the capital resources and the risk management techniques available to a bank of our size to keep programmes alive by positioning paper during adverse market conditions.

When interest rates start to rise, the risk averse placement specialists will disappear. Manufacturers Hanover, however, will continue to support issuers while maintaining liquidity for investors.

In a perfect world, supply always equals demand.

In the real world, Manufacturers Hanover makes the difference.

A call to Paul Gismondi at 01-726 0061 will give you the facts. Not just the promises.

MANUFACTURERS HANOVER
The Investment Banking Group

PepsiCo's ECP programme, designed specifically for the European investor, is described here by JANET LAVINE, the company's assistant treasurer.

Objectives met through care and flexiblity

PEPSICO, INC. launched its Euro-Commercial Paper Programme in January 1986, with a primary objective of expanding its investor base abroad. With almost $2bn in domestic commercial paper outstanding in 1986 PepsiCo also sought to achieve a complementary, yet competitive and stable source of funding.

Outstandings in the ECP programme currently exceed $325m and over $1.2bn has been placed in this market to-date. With consistent rollovers and investor demand at very aggressive rates, the programme has clearly achieved its objectives for the company.

PepsiCo attributes the success of its ECP programme to its carefully developed structure. The programme was designed specifically for the European investor and was not envisioned as a global programme or an arbitrage vehicle. As such, the dealer group is comprised of four dealers which are felt to have strong end-investor placement capabilities, including Credit Suisse First Boston, Salomon Brothers International, Swiss Bank Corporation International and Union Bank of Switzerland (Securities).

The programme is structured to be as flexible as possible for both the company and the investor: PepsiCo posts rates daily for the entire range of maturities from 1-183 days; investors have the option of settling on either a same-day, one-day or two-day basis; and investors can buy PepsiCo's paper in either US dollar or ECU. Finally, PepsiCo is willing to supply paper to meet all investor interest (trade sizes have ranged from $500,000 to $100,000,000). As such, PepsiCo has been able to wait for investor demand to develop rather than forcing its paper on the market.

Given PepsiCo's end-investor orientation, it has been important for the company to maintain tight control over the pricing of its primary paper. In this regard, PepsiCo does not permit its dealers to position any paper on a primary basis, although the dealers do stand ready to provide liquidity to investors.

PepsiCo's experience in this market has been proven to be very satisfying judging from the competitive pricing and continued investor interest experienced throughout the year. In addition, the administrative requirements of running this type of programme across the Atlantic have not proven cumbersome.

PepsiCo views its entry into the Euro-MTN market as a natural extension of its ECP programme. Similar to its objectives in the ECP programme, PepsiCo's launched a Euro-MTN programme in Europe to further broaden the investor base outside the United States for PepsiCo securities. PepsiCo also sought to provide itself with greater funding flexibility by filling the gap in its funding needs between commercial paper and longer-term debt issuances (over five years).

Similar to its ECP programme, PepsiCo felt that the Euro-MTN programme should be investor-oriented, with maximum flexibility to meet specific investor interest. Unlike tap programmes seen from time to time in the Euro-markets, PepsiCo offers its Euro-MTN programmes continuously for all maturities from one year plus one day to five years.

Prices along this entire maturity spectrum are reset daily to reflect prevailing market conditions such that investors are offered a par instrument each day. In purchasing Euro-MTNs, investors have the option of buying a full coupon note of a note issued at a discount or on a zero-coupon basis. Another aspect of the programme is the availability of a one-year floating rate note, which is repriced quarterly at a fixed spread over Treasury Bills. Finally, PepsiCo offers investors settlement from 2-5 days, and has arranged to list the fixed-rate Euro-MTNs on the Luxembourg Exchange.

Similar to standard Eurobonds, the Euro-MTNs are initially issued in temporary global form. One investor certification is received, after the expiry of a 45-day lock-up, the temporaries are exchanged for permanent global notes. Definitives are available only on request. While the programme is registered with the SEC, it is only being offered outside the United States and cannot be sold to US persons.

Outstandings in the Euro-MTNs portfolio are close to $100m, issued at aggressive levels vis-a-vis US Treasury benchmarks. The programme has found appeal among retail as well as institutional investors, as trades have ranged from $10,000 to $10,000,000 and in maturities ranging from 1-3 years. PepsiCo believes that this initial response from the market for this new product is just the tip of the iceberg and believes that the programme will continue to outperform expectations.

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December 9	Swiss Banking Finance and Investment
December 11	Credit Cards
December 12	Accountancy
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Types of note available in ECP programmes

Definitive	The traditional form of physical bearer security.
Gridnote	Not a bearer instrument, but really a security registered by the dealer.
Global note	One note to cover each tranche of an issue. Investors buy part of the note, with ownership registered by the clearing system.
Universal note	Like global notes, ownership through the clearing system. But investors also hold a non-security printed bearer instrument.

Clearing systems

No early end to differences

PLAYERS in the burgeoning Euro-commercial paper (ECP) market can take their pick of four main alternatives when it comes to choosing how to clear their business.

On the one hand are Euroclear and Cedel, the high-volume automated systems based in Brussels and Luxembourg respectively. They are already household names thanks to their development alongside the Eurobond market over the past 10 to 15 years.

Alternatively, there are the City of London-based clearing systems run by First Chicago and Chase Manhattan. Citibank also clears ECP, but mainly for programmes in which it is a paying agent or dealer.

Euro-clear, operated by Morgan Guaranty, and Cedel, owned by a group of international banks, are primarily Eurobond operations which have branched out into ECP. First Chicago, by contrast, made its name clearing Eurodollar certificates of deposits in London.

Visitors to Euro-clear or Cedel offices looking for mountains of finely-printed financial instruments will be disappointed. Both are essentially giant book-keeping operations, with the actual instruments—often high-denomination bearer documents—held under lock and key at sub-custodian banks around the world.

Settlement at both organisations is done by a batch process computer system on the basis of buy and sell instructions received for client institutions. Transactions are cleared overnight on the eve of the value date at Euro-clear and around midday on the value date at Cedel. No paper actually changes hands at either nerve-centre and any physical work is done by the depositary banks.

By contrast, the securities market in London-particularly for money market instruments—has traditionally been a physical one. Instead of giant computers (though electronic records are obviously kept) dozens of messengers walk the City streets every day carrying instructions and instruments between banks.

The London system arose because book-entry instruments carry a stamp tax, whereas bearer (that is physical) securities do not. It works because of the high concentration of custodian banks with the City Square Mile.

Despite seeming cumbersome, the London way of handling ECP has the advantage of same-day clearing, which could become more important in ECP programmes. Some dealers think it will become more so as ECP follows the lead of the domestic CP market in the US.

The arrival of ECP dealer programmes has focused investors' attention on the speed of clearing. "From seven days elapsed time, dealers now want to deal for spot, next day or even same day value," says Mr Trevor Thomson, who runs First Chicago's Clearing Centre.

While earlier Euronote facilities with tender panels put no pressure on issuing agents to get notes into a clearing system, owing to a bidding system which took up to seven days, some ECP programmes require a much faster turnround.

Information on the relative market shares of the main systems is patchy to say the least. Who does what depends partly on the type of notes being issued. Most clearers acknowledge Euro-clear's predominence in ECP—at least in regard to end investors. The size of their existing international investor bases means that ECP tends to end up in the Euro-clear system and, to smaller extent, Cedel, according to Mr Ignace Combes of Euro-clear.

But Euro-clear cannot deal with issues which are for less than two day's value. That is not a major drawback, says Mr Combes, since the market is moving towards a two-day settlement system. London clears disagree, partly, no doubt, because only they can offer same-day settlement.

"We watch what's going on," says Mr Combes, who emphasises that Euro-clear would obviously be forced to react if same-day settlement became more in demand.

Meanwhile, Cedel's Mr George Moeller claims his system *can* now handle same-day clearing thanks to tighter schedules. "As soon as the market requires same-day clearing we are ready to do so," he says. However, Cedel's timetable means any payments cleared same day have to be made to clients' accounts in New York rather than Europe.

London clearing houses also claim an advantage by operating in "real time." This means that clearing takes place as it arises during the day rather than in one huge batch at a given hour. Real-time systems tend to reduce failure rates.

Batch-processing, in contrast, does not pick up fails until clearing begins. Finding a snag means that a deal cannot be rubber-stamped—and funds change hands—until the next day at the earliest. Apart from wasting clerical time, even one day's loss of interest can be extremely costly given the high value of individual transactions.

London's tailor-made system carries a bespoke price, however. Each internal transaction at First Chicago costs $6, against no charge at Euroclear and $1—$1.50 at Cedel. Chase's charges are $10 for clients and $20 for doing business between non-clients, says Mr Tony Doogan, its head of clearing.

Even allowing for varying custody and administrative fees, which range from nothing at Chase to 14 cents per $1,000 of securities held at Euro-clear and 15 cents at Cedel, a marked disparity remains.

"You can't compare the two systems," says Mr Thomson. "It's a different service. The Continental systems do extremely well at what they do, which is primarily bond clearing." But it is the "personalised service," measured by a much lower failure rate, that distinguishes the real-time systems, he claims.

Mr Combes denies that a 10-15 per cent fail rate is typical of Euro-clear. That may apply to the Eurobond side, where there is an extremely active secondary market, but figures for ECP are far lower, he claims. "The very short maturities mean there is not much secondary market trading in ECP," adds Mr Doogan.

So whereas Euro-clear and Cedel have a powerful edge thanks to the large number of institutions which have accounts with them as a result of their Eurobond business, the London systems emphasise flexibility, speed of response and experience with short-term instruments.

Is there any hope of resolving the differences to combine the best of both worlds? The incompatibility in the early days of the ECP market certainly led to delays and loss of value for buyers or sellers.

Pressures for standardisation have since grown. A number of co-operative links have been forged between clearing houses. Spurred by Eurobond users, a "bridge"—albeit an imperfect one—to reduce clearing delays between Euroclear and Cedel has been in operation since the late 1970s.

But no bond can be bought and sold across the bridge for same-day value. Bonds can be bought or sold, but not both without losing a day's value.

More recently, Chase's London clearing centre joined forces with Cedel last January, while last month First Chicago developed its existing association with Euroclear as a sub-custodian into a closer relationship.

Although these are steps in the right direction, there are still plenty of gaps.

Most strikingly, there is no direct link between Euro-clear and Chase/Citibank or between Cedel and First Chicago. Cross-clearing for ECP can be done, but it involves going through a third party.

Such detours are acceptable if there is enough time but would involve a loss of value if the paper is for same-day settlement.

Meanwhile, hopes of achieving one standardised system are extremely long-term, partly because the variety of instruments available for ECP programmes may dictate different issuing and clearing methods. Issuing houses have tried to move away from the traditional definitive (physical) notes proving ownership, which obviously require physical safekeeping.

In respect of global notes, only one security-printed document exists and ownership is shown by computer book entry. But many investors still prefer to have a security-printed document, and definitive options are almost invariably available on global note issues.

Might printed certificates be superseded altogether in the end? Full computerisation would certainly be more efficient and allow more room for growth, but whether it is also more secure depends on whether electronic fraud is considered less likely than old-style physical theft.

Apart from the problem of overcoming vested interests, even sponsors of standardised clearing recognise that each system has its merits. Moreover, dealers seem keen to encourage competition, perhaps to keep costs down. More important, the market has tended to leave it to the clearing houses to sort things out.

But until the market agrees on a coherent view of its own—unlikely as that may be—the present ECP clearing system is likely to continue.

Haig Simonian

Eurocommercial Paper v. Floating Rate Notes.

A subtle equation between risk and return

THE SHIFT from syndicated loans to floating rate notes was one of the most significant Euromarket trends of the early 1980s. Borrowers discovered that finer terms on the debt could be obtained by tapping the capital markets direct rather than borrowing from banks. FRNs are also more flexible than the cumbersome syndicated loans and money could be raised far more quickly.

For their part banks were willing to arrange and invest in floaters even though they were replacing the established banking market, because in the environment of the international debt crisis securitisation of lending allowed banks the chance to sell assets rather than watch their value fall.

The tide of innovation has not stopped at FRNs though. Now borrowers have even more variety in the debt instruments they can use tailored to their funding needs. After floaters came Euronote facilities and more recently still the Euro Commercial Paper market. This last is now considered by some bankers to be challenging the FRN market both for its borrowers and investors.

Others such a Mr Warren Spar, head of money market sales at Shearson Lehman Brothers International, regard the two markets as "complementary." He argues that the two products are different and that both can be attractive to investors and borrowers, allowing diversification of the former's portfolios and the latter's funding sources.

The first, and most important, difference between the two types of paper is the risk involved. At issue FRNs generally have quite long lives, from five years to 20, 30 or more, with perpetual floaters another category. The interest rate payable is refixed at regular intervals, usually every three or six months, so that investors always receive a money market rate of interest. Even so, investors are taking a term risk because the principal is not repaid for many years. Investors can, of course, buy floaters with a shorter maturity in the secondary market.

An FRN investor who wants his capital back before the redemption date will have to sell in the market and is taking the risk that the market might be lower when he comes to sell. In theory the regular interest rate fixings should keep the FRN price fairly close to par, but recent experience in the floater market shows that prices even on top quality paper can fall far enough to make a significant difference to a money market investor.

A buyer of commercial paper, on the other hand, is holding an instrument with a near term maturity, usually of only a few months. The interest rate is set at the outset and the investor is sure, except in the rare case of default, of receiving his capital back. He can thus calculate his return at the start.

Floater investors are compensated for taking this extra risk by receiving a higher return, often above London interbank offered rate (Libor) while ECP returns are usually below.

The tide of innovation has not stopped at Floating Rate Notes . . . Borrowers have even more variety in the debt instruments they can use tailored to their needs

Borrowers are prepared to pay more on floaters if they want the certainty of having the money for many years.

Under a commercial paper programme it is the job of the appointed dealers to try to maintain the outstanding paper at the amount the borrower wants. That adds tremendous flexibility for the borrower if it is not sure how much it wants. For instance a corporate—which in any case would probably only raise floating rate debt by issuing a fixed rate bond and swapping it—can set up a commercial paper programme easily and cheaply and then use it to finance its working capital which may vary from time to time.

Another type of risk—credit risk—is also largely avoided by the commercial paper buyer. In the short time that the paper is outstanding the chance of a highly rated issuer suddenly plunging into such financial disarray that it cannot repay its debts is slim indeed. Investors can even regard commercial paper from less illustrious names as a fairly safe bet, again because financial ruin usually takes more than a few months to achieve. In contrast, buyers of floaters must be aware of a decline in status of a borrower because it will naturally result in a fall in the value of the bond.

On the other side of the coin, borrowers can find that when their credit rating slips it is easier to issue commercial paper than a floater. Chrysler Finance, for instance, discovered that in its darkest moments, now passed, its ECP programme fared far better than its outstanding floaters. It could still sell commercial paper at rates close to Libor even though its floaters were yielding much more.

While banks are natural holders of floaters, adding them to their loan books to make up for the loss of traditional lending business, commercial paper is more the preserve of money market investors such as banks' treasury departments, central banks, institutional and corporate money managers. Before the advent of ECP these investors were buyers of floaters too as money market instruments.

An added attraction to them of commercial paper is that they can arrange to by a particular amount of paper maturing on a specified date. That can be useful if they have a particular cashflow need to satisfy. Such investors—who "lock-up" the paper holding it to maturity—are not concerned that there should be an active secondary market enabling them to sell before redemption.

However, sometimes such an investor can need to realise his investment before maturity. In such cases the floater market might be expected to have the advantage, as large issues are actively traded by a number of market makers. This liquidity has sometimes been known to disappear though, and in recent weeks FRN traders have seen dealing spreads widen dramatically and prices fall, while some market makers have been reluctant to commit themselves to making prices.

A holder of commercial paper can return to the dealer from whom he originally bought the instrument if he wants to sell it again. S. G. Warburg is ready to repurchase commercial paper which it has sold. "A customer whose liquidity position had changed could expect that we would normally buy back the piece of paper with its same relativity to Libor minus a dealing spread," says a Warburg director.

Bankers Trust argues that there is a liquid secondary market in commercial paper and that an important part of its role as a dealer for may programmes is to be prepared to support prices in the secondary market and provide liquidity for investors. While some issuers feel that once placed commercial paper should not be seen again until maturity, that is not always a realistic attitude when ECP is a type of negotiable instrument.

The ECP market may now be only a dwarf compared to its US equivalent, but it is growing fast. Some of that expansion must be at the expense of the floater market as commercial paper as both borrowers and investors become aware of its advantages. But floaters have their place as well, and the two markets should be able to co-exist in harmony.

Maggie Urry

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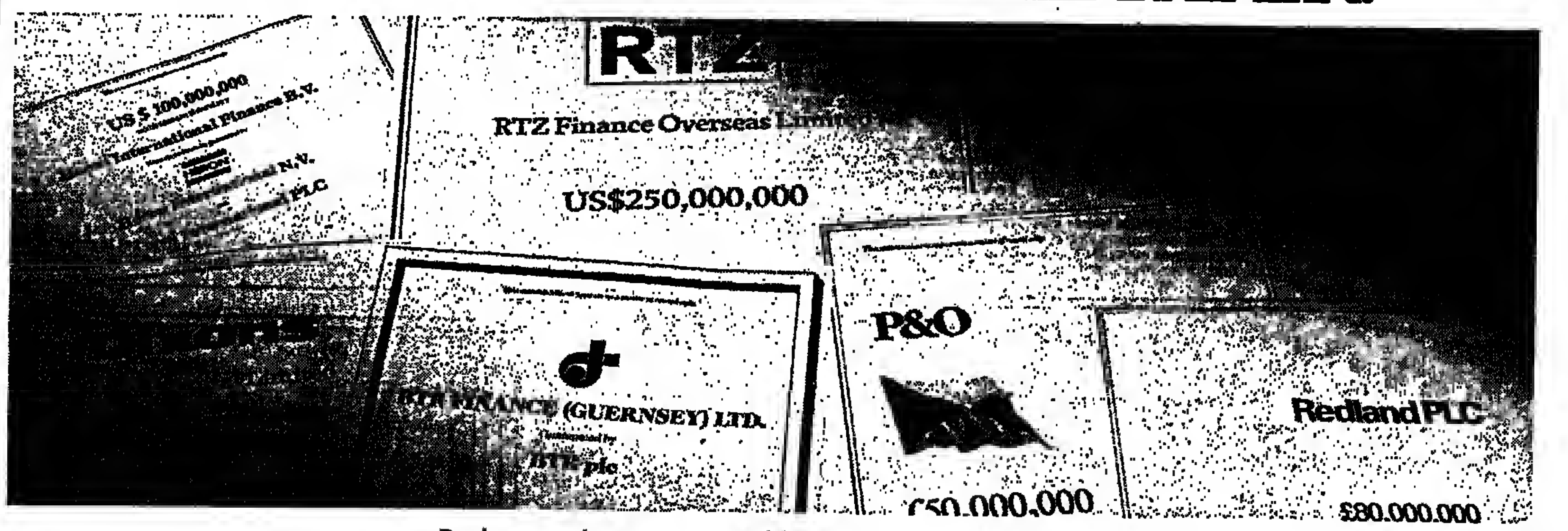

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Japanese CDs

'Off-the-run' banks parade their wares

THIS YEAR has been a godsend for the armchair investment banker keen to brush up on slightly less familiar Japanese banks. A parade of institutions bas marched through London, launching massive, and undoubtedly successful, Euro-CD programmes.

What bas distinguished the range of Japanese banks that have come forward is not so much their homogeneity—programmes have been launched for City, trust and lnng term credit banks—but the fact that none of them is represented nn the already well-established Japanese Euro-CD "run".

The "run" is the market's way to describe the CDs of 12 Japanese City and long-term credit banks which have become well known to Euro-market professionals over the past decade. So familiar bave these high-quality names become that dealers trading "on-the-run" institutions do not quote a borrower's name when trading its CDs but nnly its on-the-run status.

The run bas created a standardised product, and consequently a high degree of liquidity for the banks concerned. Japanese banks' CDs are by far the largest element in the $90-95bn Londnn based Euro-CD market. "Every dealer will quote you a price," says Mr Stuart Clenaghan, nf Shearson Lehman Brothers.

The reasons for on-the-run banks to issue CDs are by no means always internal. More often that not, issuing has been arbitrage-driven. On-the-run bank CDs have become highly speculative in relation to the Londnn interbank bid rate.

The banks have been quick to capitalise. When differentials between CD issuing rates and the interbank market become wide enough—usually at an 18 basis point trigger—according to one dealer, they have simply issued paper and re-lent the proceeds at a spread to the interbank market.

Spurred by the prospect of cheaper and more diverse funding, speculative profits and a wider investor base, Japanese institutions which are not on the run have been keen to copy the example. That would also let them break away from their reliance on interbank dealings and small one-off CD issues.

The snag has not necessarily been inferior credit quality: both Sumitomo Trust and Mitsubishi Trust are large triple-A rated institutions that are not on the run. More often than not, the obstacle has been a combination of unfamiliarity to Euro-investors, inward-looking domestic managements and the lack of a credit rating—though, confusingly, not all on-the-run bank's are rated. Moreover, being on the run requires a certain degree of liquidity in a bank's CDs and a minimum level of outstandings.

Western investment banks have played a particularly close role in launching Euro-CD programmes for off-the-run banks. They have actively approached the Japanese banks to make them aware of the potential. Investment bankers have also striven to convince the Japanese that they will be able to create "incremental" investor demand and thus produce cheaper funding. Such "sponsorship" is not unusual, according to Shearson Lehman's Mr Warren Spar. "We're just doing the same job as we would do in the US commercial paper market for corporates."

The results have been startling. Prior to their Euro-CD programmes, off-the-run Japanese bank CDs were trading at yields between seven and 10 base points above on-the-run houses, and in some cases higher. After the programmes, that margin has been reduced by three to five basis points. In certain maturities, the differential has shrunk to just two to five basis points.

The investment banks that are dealers for Japanese bank Euro-CD programmes stress two main factors: their own distribution skills, letting borrowers access a wider investor base and achieve tighter spreads; and a close relationship of trust between issuer and dealer. The on-going nature of CD programmes makes it essential that borrowers are convinced an investment bank can sell its paper for cash over a period nf time. That makes for a longer term borrower-dealer commitment than in a normal nne-off Eurobond issue.

"There has to be very large investor confidence in the liquidity of the notes," says Mr Harry Pool, nf Salnmnn Brothers. However, borrowers must also play their part, say dealers, for example by nnt tapping the market too frequently in order to maintain tight spread relationships.

Whn buys the paper issued? The liin's share goes to US money market funds and, to a lesser extent, corporations. Investment managers, banks and secondary financial intermediaries are also takers. However, tha biggest growth has coma from increasingly sophisticated company treasurers trying to manage their mnney more effectively. Corporatinns are nnw diversifying the deposit market and looking for instruments that offer a wider range of maturities. That increasing sophisticatinn and willingness to accept less familiar names is ona reason why the Japanese CD programmes have taken nff.

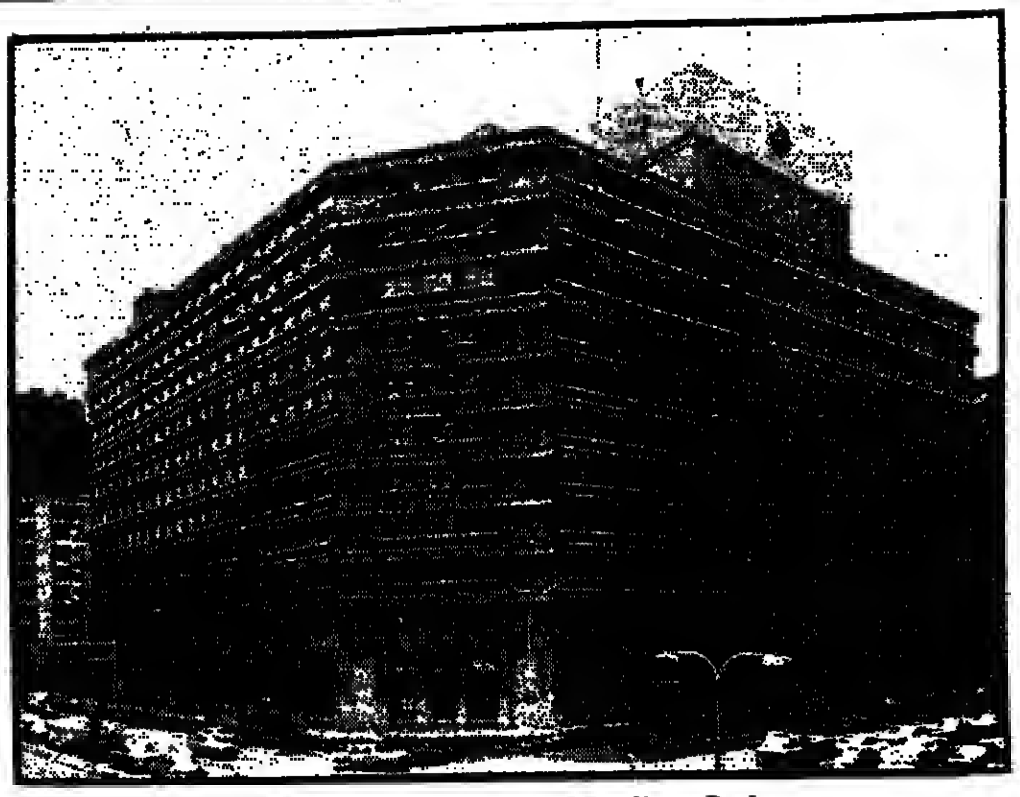
Demand in Europe for CD programme paper has been less keen, bowever. Exchange rate risk is a handicap. There is also some resistance to Japanese names, especially in the UK. However, some big blocks have been sold into France, according to Sbearson Lehman Brothers.

The signs are that Japanese bank CD programmes will remain active, thnugh the number nf new issuers is limited. All but two nr three nf the likely off-the-run names have now tapped the market. Those left are not short of investment bankers' calling cards.

Meanwhile, the yield differential between on-the-run banks and those with CD programmes is likely to continne narrowing. Fnr some nff-the-run banks, it may in time be possible to issua paper at levels indistinguishable from on the run counterparts. "Eventually, we would expect banks nf similar credit quality to trade at similar levels," says David Clapham, nf Salomon Brothers. Such banks may, indeed, end np on tha run themselves in the end.

Currency diversification is another possibility. The Big Bang and likely developments in tha sterling discount market mean there may be room fnr new borrowers. Spread quotations are still too wide and tha sterling market is far smaller than that for Eurodnllar CDs, according to Salnmon Brothers, but it is becoming more liquid. So, while the sterling CP market remains in the doldrums, there may well in time be room for Japanese banks to becoma substantial sterling CD issuers.

Haig Simonian



The Tokyo headquarters of Sumitomo Bank.

Japanese banks "on the run"

	Available funds (Ybn)*	Pre-tax income (Ym)*
City banks		
DKB	26.630	138.613
Fuji	23.075	151.982
Sumitomo Bank	22.509	160.012
Mitsubishi Bank	21.736	125.184
Sanwa	21.355	128.721
Tokai	15.844	73.116
Mitsui Bank	15.148	66.331
Taiyo Kobe	13.636	44.915
Daiwa	12.744	81.986
Bank of Tokyo	11.255	71.345
Long term credit banks:		
IBJ	19.296	91.277
LTCB	15.001	71.983

*As at end March 1986

Source: Mitsubishi Trust

Japanese Banks with $ Euro-CD programmes

Name	Size of issue ($bn)
Sumitomo Trust	1
Mitsubishi Trust	1
Saitama Bank	1
Nippon Credit Bank	1
Mitsui Trust	1.5
Bank of Yokohama	1
Toyo Trust	1
Hokkaido Takushoku	1
Yasuda Trust	0.5

Commercial banks

Shift is mixed blessing

THE WORLD's large commercial banks have viewed the recent growth of the commercial paper market with what can, at best, be described as mixed feelings.

On the one hand, this increasingly popular form of finance provides banks with e new "product" to offer their most important corporate clients, and an opportunity to earn fees by arranging CP programmes. In this sense, CP is an exciting challenge.

On the other hand, commercial paper merely hastens the process nf "disintermediation" by cutting banks out of their traditional role as intermediator between depositors and borrowers. In this sense, CP is not only eating into the banks' conventinnal lending market, bnt also weakening the ties that have traditionally bound them to their largest corporate clients, particularly through the overdraft—that umbilical cnrd nf banking relatinnships.

Fnr banks wbn nperate in the big company market, there has been little nppnrtunity to wax sentimental about this shift in their business: instead, they have been nbliged by the force nf cnmpetitinn to come to terms with it as quickly as they can, nften at the cost of some deep-rooted changes in their organisation and approach.

Virtually all leading internatinnal banks in America, Europe and the Far East are nnw in the commercial paper business. Usually they have placed this activity in a merchant or investment banking divisinn alongside their capital markets nperations, though the traditinnal lending side remains interested in dealing with customers.

"As a commercial banker, I feel we should be npfront in the commercial paper business," said Mr Robert Medlam, the director of corporate banking at Lloyds Bank which, like most large banks, has seen its lending activity to multinational companies fall off dramatically in recent years.

"Commercial paper is an alternative means nf raising funds to an overdraft, and there is bound to be snme diminutinn in the total that we supply because the large borrowers can get it in a different quarter."

This revolutinn in the market has forced a cultural change nn bankers trained to think in terms nf advancing credit. They have had to get to grips with new capital market concepts and learn to view their role as setting np a series of securities transactions, rather than rely on their relationship with their client to bring in e steady flow of business. They must also learn to resist forcing a loan on a client when some merchant banking product may be more suitable.

Bankers claim that they will always do "what is best for the client." Nevertheless, managers have had to cope with growing internal rivalries between the lending and capital markets departments as they vie for deals. Many of them now have relationship officers who have no departmental interest in the type of prodnct they sell; their job is to keep a client happy.

The irony aboat the growth of CP, though, is that the revenues banks derive from setting up

The revolution in the market has forced a cultural change on bankers trained to think in terms of advancing credit. They have had to get to grips with new capital market concepts.

programmes for clients are extremely meagre because of the intensity of competition. Also, unlike a loan which, once made, earns profits for a bank without mnch further effort, CP fees are one-off events that have to be worked for every day of the week. So it is not even as if CP offers banks a major new profit nppontunity or saves costs—rather the opposite. Their entry into the market is a very basic matter of protecting their business.

Mr Warren McLeland, who is in charge of Chase Manhattan Bank's commercial paper activities in London, says the banks' approach to CP "is defensive and aggressive at the same time. We cannot sit back and watch a market walk away from us."

Mr McLeland says that Chase's multinational customers expect the bank to have the expertise to set np CP programmes in a number of markets, and if it cannnt they will simply go elsewhere.

But if CP is hardly the ideal banking prodnct, it is in another sense, an extremely useful marketing tool. Because CP decisions are made on a day-by-day basis—or even hour-by-hour—it gives bankers a pretext for frequently ringing up their clients to chat over their needs and discuss the state of the market. This enables them to cement links with company finance directors and recreate the traditional banking relationships of bygone days.

While commercial paper may be the reason for the daily telephone call, it gives the banker a chance to sell other products or feel out what a client's upcoming needs may be. A company's short-term financing needs also often give a clue to its plans: is it about to make an acquisition, does it have some big deal in the making?

As multinational companies steadily pare back the number of banks they deal with, it is increasingly vital for banks to fight to remain on the shrinking contact lists of corporate finance directors.

The possibly destructive impact of CP and other securities products on traditional banking relationships is something that concerns banking regulators as well as the banks. For one thing, it means banks are likely to lose their best customers, because they are the ones who can go out and borrow money in their own name, so the quality of their business will decline. Weaker relationships would also limit the banks' ability to help out their customers in times of trouble.

In fact, some bankers believe that a lot of the talk of CP undermining traditional banking ties is overdone. "Commercial paper is not going to supplant the overdraft," says Mr Keith Glover, of the commercial paper team at NatWest, which has been one of the most active banks in the new sterling CP market.

Mr Andrew Winckler, who is a director of Lloyds Merchant Bank, believes that CP can even cement a relationship with a client. "We provide an after-sales service which means we advise them daily on the state of the market, and regularly discuss their issuing policy. This consolidates our relationship with a client—so long as we perform well."

Company finance directors are also aware of the value of good banking relationships, and the more far-sighted among them try to ensure that they keep the lines to their banks open so that they can call on them in times of need.

David Lascelles

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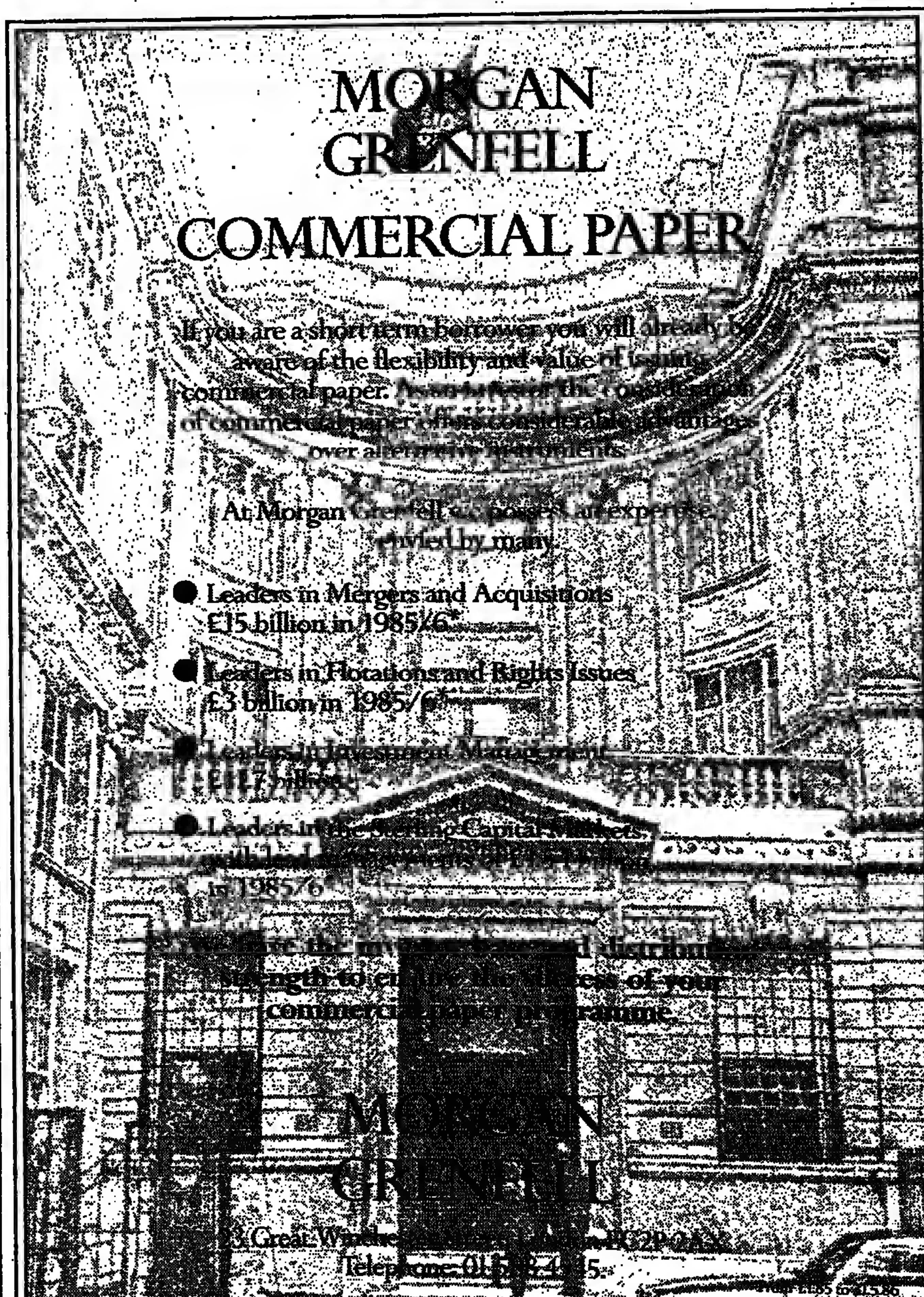

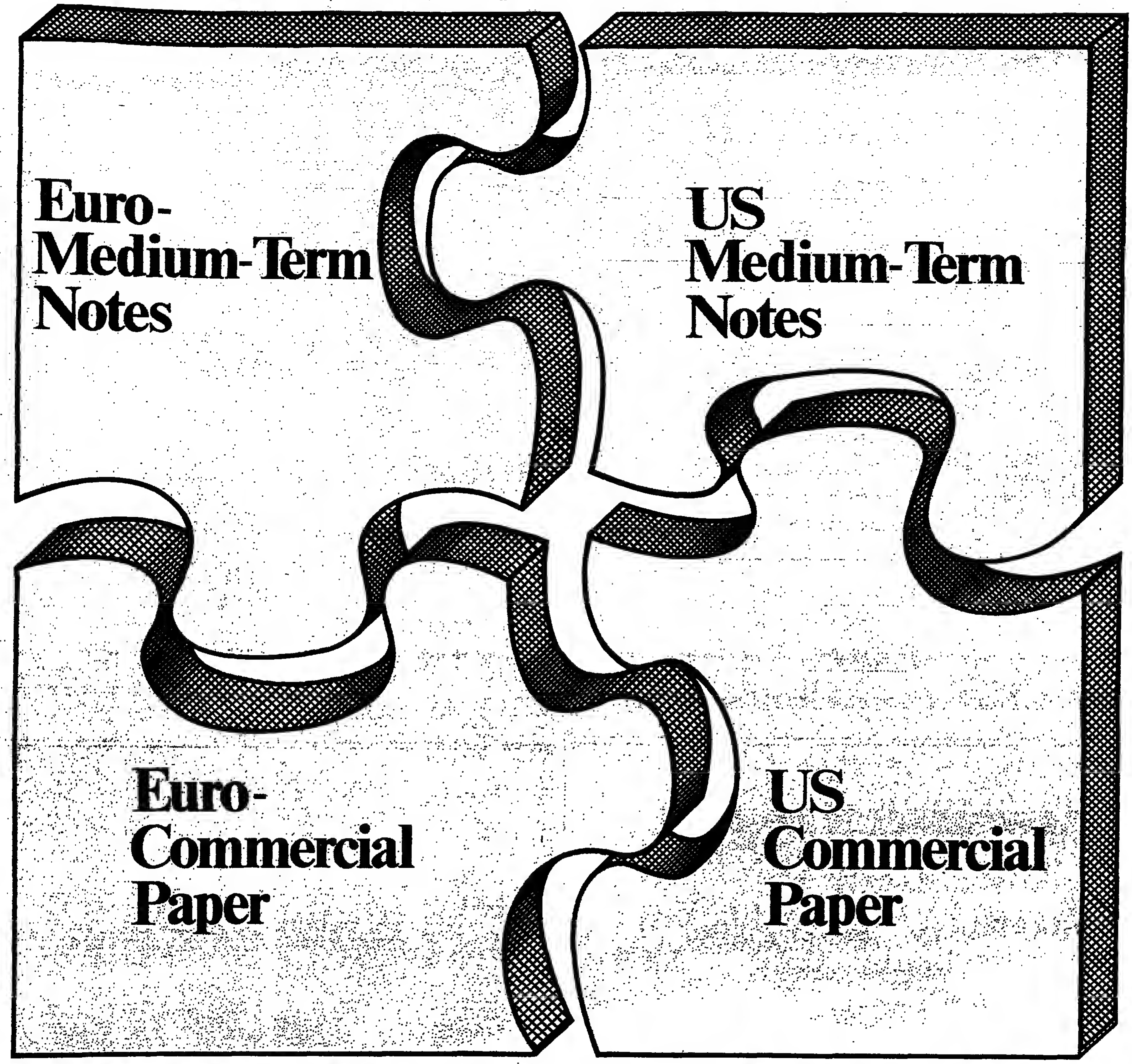

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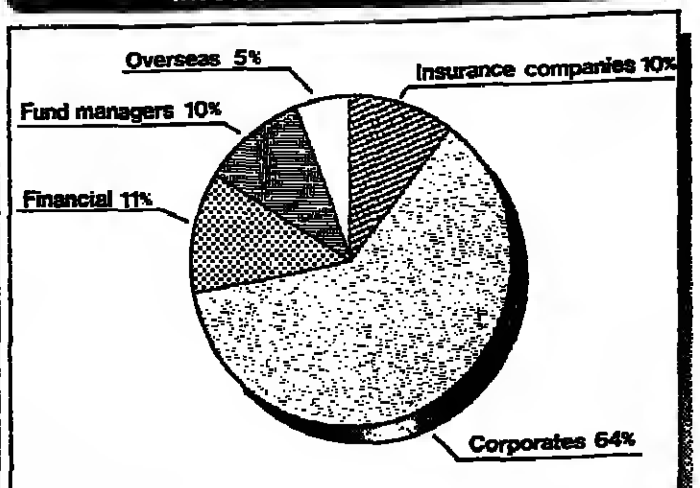
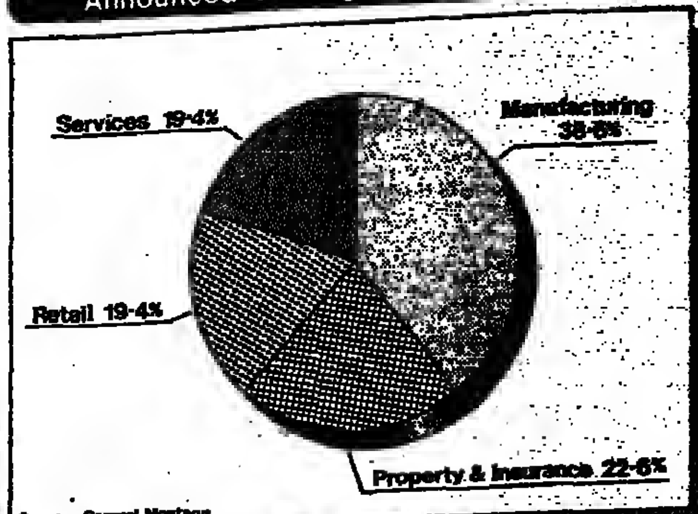
Commercial Paper 10

Investors in sterling C.P.



Source: Samuel Montagu

Announced sterling C.P. programmes



Source: Samuel Montagu

Sterling Commercial Paper

A less than booming start

TO JUDGE by the fanfare of pnblicity that greeted its launch last spring, the newly-fledged market in sterling commercial paper was set to revolutionise the City's financial markets.

To judge by the actual results so far the market has been a damp squib.

Somewhere between these two extremes lies the truth about a market that has been in operation for little more than six months. Until mid-September abont £340m worth of paper was outstanding, thongh the pace may have picked up since then and Mr Charles Mitchell of Samnel Montagu reckons thnt the total may now be more than £500m.

No one can claim that this voiume is an unambiguous success, but at the same time it does seem to suggest that the nucleus exists of a market that could in time grow to a quite respectable size.

"I've been pleasantly surprised, and of course relieved, to have seen a steady stream of announcements very much in line with our expectations in May and June," says Mr Bruce Chapman of County NatWest.

There are a number of reasons why the sterling commercial paper could never be expected to get off to a booming start. Among them were douhts over its ability to compete with the large existing market in bankers acceptances, legal uncertainty before enactment of the Financial Services Bill and a seemingly inbuilt resistance to innovation among leading UK corporate treasurers.

In addition, tha Bank of England imposed some quite tight regnlations as to who can issua sterling commercial paper. Borrowers must have a listing on the London Stock Exchange, and they must have net assets of £50m.

This effectively excludes a number of potential borrowers, such as state-sector entities from the UK and abroad as well as foreign insurers such as General Motors Acceptance Corporation, which has mada little secret of its desire to raise money in the market to finance its car-lending programme in the UK.

Banks are also not permitted to issue commercial paper in their own name, although Barclays has acted as guarantor on one programme—a £20m facility for US Debenture Corporation.

As a result of these restrictions the initial problem faced by the market was that of finding a suitable range of borrowers actually wishing to issue paper. By tha end of last month a total of 32 programmes had been announced for a total potential valua of £2.3bn and 14 borrowers had actually issued paper.

Many of the companies which have come to the market have been those in the services, property and insuranca sectors which are not permitted to issua bankers acceptances or hills because they do not engage in physical trade. But to the relief of many bankers it has become clear that the commercial paper market ean at times compete with the hill market.

Most commarcial paper sells at rates around Limean, the mean of the bid and offered rate for sterling deposits in the money market. At times this rate has been actually lower than the bill rate, though this is most common for the shortest-dated maturities.

It is not low enough, however, to attract the type of hlue-chip companies who would expect to be able to issue commercial paper at rates well below the bid rate. Many of them can do just that if they borrow in tha Eurocommercial paper market and swap the proceeds back into sterling.

For this type of company there is little ineentive to set np a special commercial paper programme, especially since some of the legal aspects remain nnclear.

When the market opened in the spring it was generally assumed that companies could not issua paper without going through an offshore financing vehicle. Under the Companies Act direct issnes out of the UK would have required publication of a prospectus, whieb is impractieable in a fast-moving short-term market like commereial paper.

Some companies such as Royal Insuranca and BOC Group the industrial gases and health-care company, have issued directly on the basis of an oral offer only, but many other companies would prefer to wait nntil this particular uncertainty is cleared up.

This will happen only when the Financial Servicees Bill is enacted, probably next spring.

Meanwhile, there is a growing feeling in the market that investors' demand for paper outstrips supply. "We certainly saw some three months ago that there was a quite significant overhang of demand from investors for short term sterling instruments," says Mr Trevor Bush of S. G. Warburg.

As a result, one by-product of the market has been a boom in the arrangement of sterling certificate of deposit programmes for major banks, which is designed to take up some of the slack.

Some bankers argue that investors in certificates of deposit are not the same as those which buy commercial paper. British building societies, for example, are not allowed to buy commercial paper but they do buy certificates of deposit in n big way. Others say that the overlap is quite considerable. Among the buyers of commercial paper are corporate treasurers, insurance companies and fund management concerns.

One indication of a healthy genuine demand by investors is that so far relatively little sterling commercial paper—£70m at last count—has been left in the hands of banks.

No one in tha sterling commercial paper market pretends that it will ever grow to be a large market compared with the giant market in the US or even the fast-growing market in Eurocommercial paper. Like its domestie counterparts in France and Holland, the main investors' demand for paper is likely to be concentrated among domestie investors and so far little sterling commercial paper has been sold abroad.

That in turn means that the numbers of dealers who can expect ultimately to make a reasonable living out of the business is bound to be fairly limited. Most bankers reckon that they will probably total no more than five.

Nonetheless, hope is growing that the sterling commercial paper market will eventually become a market of some importance for the UK itself. The Bank of England has so far shown no signs of broadening its eligibility restrictions to attract more borrowers, although this could happen as the market gets established.

Moreover, more companies are expected to be attracted into the market as they see their competitors launching successful programmes.

For the time being tha sterling commercial paper is looking to a boost in two major areas to belp it on its way. The first is an ahility to develop investors' interest in paper that sells at rates below Libid. Interest now seems to dwindle rapidly below this point.

The second boost—the launehing of commercial paper programmes by top grade bluechip companies—would follow antomatically from that development. What this market now really needs, bankers say, is a handful of benehmark issuers that would really give it a seal of repectability.

Peter Montagnon

Top designated dealers in sterling paper

(Number of dealerships in brackets)

Commercial paper		Certificates of Deposit	
County Bank	(14)	S. G. Warburg	(12)
S. G. Warburg	(9)	Lloyds Merchant Bank	(7)
Barclays Bank	(7)	Samuel Montagu	(6)
Morgan Grenfell	(7)	Shearson Lehman	(3)
Samuel Montagu	(5)	Barclays Bank	(2)
Lloyds Merchant Bank	(4)	County Bank	(2)
Citicorp	(4)	Chemical Bank	(2)

Source: S. G. Warburg—figures as of October 29

Security, liquidity and price are what matter for investors argues Stephen Crompton, group treasurer of Unigate, one of the early UK issuers.

Variations on the US model

THE SCP market came into existence on May 21 this year, following the Bank of England notice dated 29 April and the necessary statutory instruments amending the Banking Act.

The average initial maturity of SCP has been very short—generally under 30 days—and over the last two months it appears to have shortened still further to approximately 15-20 days.

These two features—non-bank investors and short maturities—have led to a limited demand for secondary market trading, typically only 5% of paper issued.

The role model for the SCP market appears to have been the enormous (over $300bn) US domestic CP market, rather than the Euronote and Euro CP markets, where longer-dated paper, and an active secondary market, are still quite common.

The SCP market's higgest difference from its US equivalent is investors' requirement for credit ratings. In the US, before the collapse of Penn Central in 1970, the vast majority of paper was unrated. Since than, relatively little unrated paper has been issued in the US, and later problems, sueh as those surrounding Continental Illinois, have meant that, on occasion, issuers with other than A-1/P-1 ratings have found it very difficult to issue paper at all.

In the UK, the inter-company loan market, which had shown signs of coming into existence in the early 1970s, disappeared completely during the secondary banking crisis of 1973-74 and failed to re-emerge for over a decade.

There are, today, just four issuers: PHH, Redland, Royal Insurance and Unigate, with A-1/P-1 ratings for their sterling commercial paper programmes, although one or two other issuers, such as Allied Lyons, do have ratings applied to their US CP programmes.

For an investor in SCP, arguably, only three things matter—security, liquidity and price—and in that order.

As regards security, the SCP market has certain features which are not mirrored in other markets.

- Issues are only permitted by companies which have net assets of at least £50m and whose shares (ordinary or preference) are listed on the Stock Exchange. Issues are also permitted by such companies' wholly owned subsidiaries provided their sterling commercial paper is guaranteed by the listed parent company.

Banks, licensed deposit takers and their holding/subsidiary companies, and building societies are discouraged from issuing SCP, as they are generally able to issue CDs. Issuers (or their listed parent companies) are required to confirm that, at each issue date, they are in compliance with their obligations under tho listing regulations.

- The issuer or any parent company guarantor, is required to warrant, at each issue date, that "having made all reasonable enquiries, it has not become aware of any change in its circumstances which could reasonably be regarded as significantly and adversely affecting its ability to meet its obligations in respect of the notes as they fall due".
- This warranty, albeit an "internal" issuer or guarantor credit quality assurance, seems the strongest argument that (external) credit ratings are not needed hy issuers in the SCP market. The warranty is, of course, given at the issue, rather than the repayment date. It remains to be seen how many unrated SCP issues will survive a major liquidity crisis.

In the US, the regulation of approved CP dealers has encouraged a requirement for two prime ratings from nationally recognised rating agencies. Where ratings have been used in the UK, the US practice of obtaining two ratings has almost universally been followed.

The two foremost agencies, Standard & Poor's Corporation and Moody's Investors Service, have both established themselves in London and a third agency, EuroRatings is also setting itself up, with n significant rumonred involvement from Fitch Investor Service, the third largest US credit rating agency.

For many, credit rating agencies are only as good as their record—it is worth noting that no commercial paper has ever defaulted with o rating of A-1. This record stretches back prior to the Penn Central collapse.

To provide liquidity, it has been traditional for dealers, in exchange for the right to hid for paper directly from issuers and, as a service to investors, to undertake to buy paper back from investors who wish to sell the paper before maturity, at a reasonably small margin over the yield at which the dealers are offering such paper to the market.

This service is one which, for an issuer, it is easy to monitor by the simple expedient of the issuer also standing ready to buy back its own paper at a suitable price. Issuers are, however, frequently unwilling to repurchase paper until seven days after issue, as this might be construed as an original intention to issue paper of less than seven days original maturity, which is not permitted under the regulations.

The value of ratings is demonstrated by the price at which rated and unrated paper is issned.

The price of rated SCP, for issuers, has typically been a yield of LIMEAN or a few basis points less, whereas nnrated paper (other than for issuers with other rated programmes) appears generally to carry a yield from 4 to 20 basis points (i.e. 0.04% to 0.20%) higher than that for rated paper.

Although market growth has been steady, rather than spectacular, most major issners have found it more rewarding than originally anticipated, and a steady growth in investor demand appears likely to continne.

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4 Credit Suisse First Boston	21
5 Salomon Brothers	15

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THE BORROWERS' VIEW	VOTES
1 Credit Suisse First Boston	81
2 Citicorp	61
3 Morgan Guaranty	58
4 Chase Manhattan	20
5 Salomon Brothers	18

THE EURONOTE/EUROLOAN BANKERS' VIEW	VOTES
1 Citicorp	56
2 Morgan Guaranty	38
3 Credit Suisse First Boston	17
4 Chase Manhattan	16
5 Bank of America	10
5 Bankers Trust	10

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1 Citicorp	68
2 Credit Suisse First Boston	43
3 Merrill Lynch	32
4 Morgan Stanley	31
5 Swiss Bank Corporation International	26

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THE BORROWERS' VIEW	VOTES
1 Citicorp	71
2 Credit Suisse First Boston	53
3 Morgan Guaranty	20
4 Enskilda Securities	15
4 SG Warburg	15

THE BANKERS' VIEW	VOTES
1 Citicorp	65
2 Credit Suisse First Boston	27
3 Morgan Guaranty	24
4 Merrill Lynch	16
5 SG Warburg	12

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	VOTES
1 Citicorp	50
2 Merrill Lynch	42
3 Credit Suisse First Boston	24
4 Swiss Bank Corp	19
5 Morgan Guaranty	10

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	VOTES
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2 Morgan Guaranty	31
3 Chase Manhattan	18
4 Bankers Trust	12
5 NatWest	9

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THE BORROWERS' VIEW	VOTES
1 Citicorp	69
2 Morgan Guaranty	40
3 Chase Manhattan	27
4 Credit Suisse First Boston	19
5 Bank of Tokyo	18

THE BANKERS' VIEW	VOTES
1 Citicorp	46
2 Chase Manhattan	32
2 Morgan Guaranty	32
4 Bankers Trust	12
5 Bank of America	9

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Hong Kong

A lasting role is sought

THE DOMESTIC capital markets of Hong Kong are a good example of the application of sophisticated Euromarket skills to a domestic market.

Over the past two years they have hlossomed rapidly, offering a microcosm of the worldwide trends towards securitisation of debt and disintermediation of banks.

In Hong Hong, bowever, their prospects have an added poignancy. The new markets represent part of a search for a role whicb will enable the territory to continue to flourisb after it bas passed out of British hands and under Chinese sovereignty in 1997.

Many foreign and local bankers are striving to develop Hong Kong, already an important financial centre, into one which will outlast the political transformation. Their aim is to provide advanced services which will be of benefit to Peking as well as to local customers and to establish a market with sufficient liquidity, size and participants to ensure its future.

Commercial paper issues are one of two main strands of the new markets—the other being longter-term deht issnas, generally in the form of certificates of deposit hut really so similar to bond issues. The CD market has continued to grow tbis year, hut the arrangement of new commercial paper facilities has faltered.

Last year commercial paper facilities grew foorfold to HK$8.35bn—not much more than US$1bn, but still significant in local terms. This year new deals bave amounted so far to not mucb more than HK$3bn.

Hong Kong has not advanced to the pure dealersbip system now common in the Euromarkets. Most facilities are operated with tender panels in wbicb banks bid for paper wben the issuer requires funding. While the market still requires nurturing, this is likely to continue to be the case.

Why then has the pace of growth not been maintained? There are several reasons. One of them is the fact that tbere are relatively few large local corporate borrowers with the credit standing to enable them to issue commercial paper. Most of the likely issuers bave already arranged facilities, such as the large utility and property concerns and some hanks and finance companies.

Among key issuers bave been the Mass Transit Railway Corporatinn, Hongkong Land, Hongkong Electric, the Kowloon Canton Railway, Cheung Kong and Jardine Matheson.

It is difficult to see bow this prohlem can be resolved. The Government, which has pegged the Hong Kong dollar to the US dollar, is reluctant to jeopardise this by allowing too many borrowers in Hong Kong dollars who do nnt have a natural need for the currency.

Chinese horrowers, regarded in general as likely to be even larger users of the Hong Kong markets than at present, are unlikely to he suitable for commercial paper given their generally nnknown namas and credit qualities.

Some bankers feel in any event that the commercial paper market bas already been opened up, due to intense competition between sponsoring banks, to borrowers wbo are not really suitable for it.

The second major problem is the lack of end-investors. Banks around the world have sought to develop commercial paper as a way of removing assets from tbeir own balance sbeets. But this only works if there are other lenders to replace them.

Otherwise, banks' assets simply take a different form—lending to other banks' clients by buying commercial paper, ratber than lending to their own. In Hong Kong, banks remain by far the largest holders of local capital market instruments.

This could create problems in several ways: a market in wbich paper is trading purely around "the street"—among professionals—is unlikely to last long, since it provides no net profit to tbe market as a whole; and there could be structural problems should interest rates turn upwards. Banks woold then seek to off-load their holdings all at once.

Banks have sought to correct this problem in several ways. They have been promoting more active involvement hy institutional investors sucb as pension funds. They have been devising asset-packaging techniques wbich lock up capital market instruments until maturity; and tbey have created money market funds to invest in local capital market instruments. These are still at an early stage and account for a small proportion of outstandings.

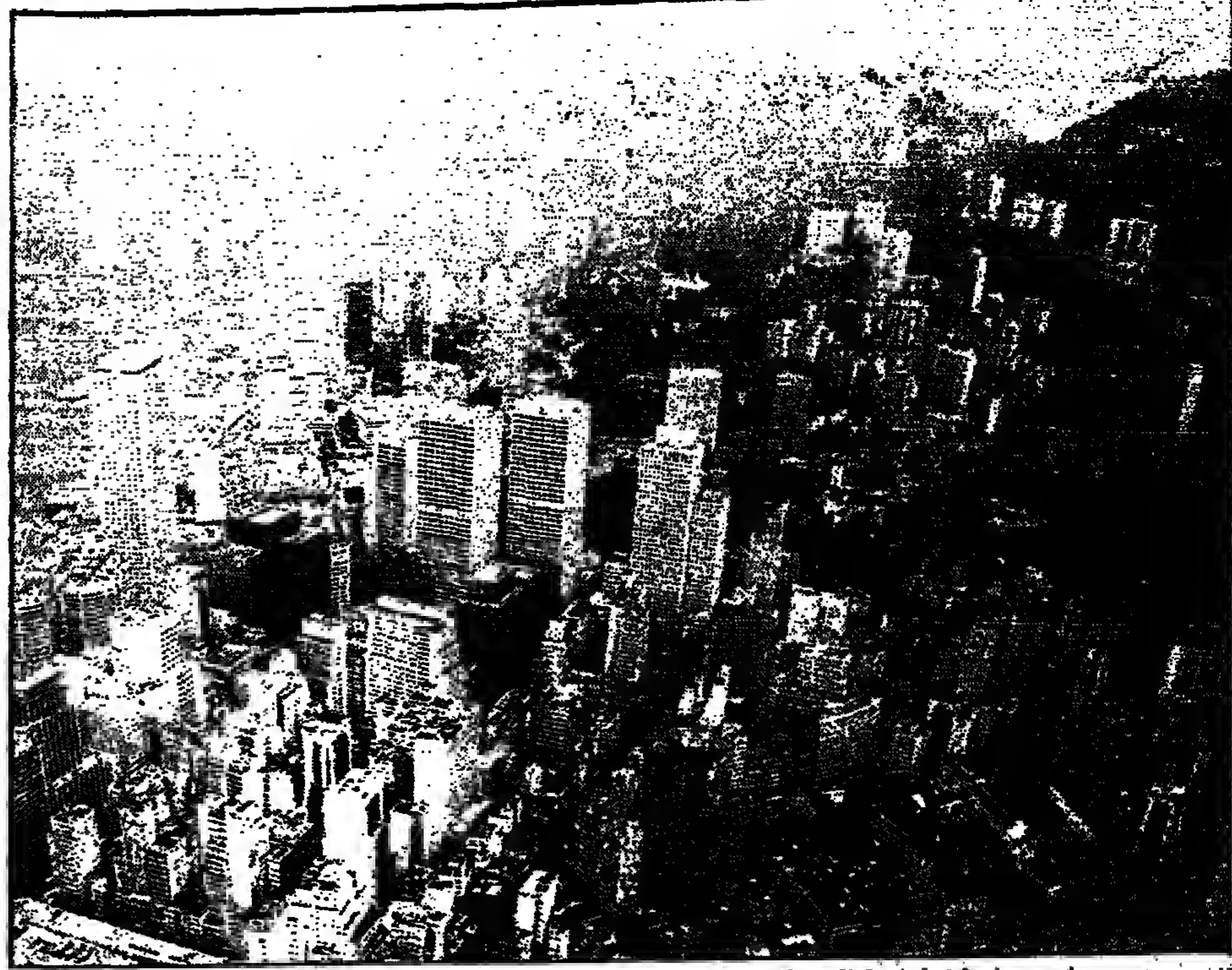
Despite all these efforts there is still a considerable way to go. There are other uncertainties: among the many things that are volatile in Hong Kong are its interest rates.

On a hroader long-term front, the continued development of a capital market with international skills in Hong Kong depends on tha contioued commitment of a significant number of the foreign hanks wbich have dominated the arraogers of capital market transactions.

Whether that commitment will last cannot yet be determined, though it is probahly fair to say that tbe moves by some US banks of tbeir Asian headquarters to Tokyo do not spell doom for Hong Koog.

The local capital markets association, formed this year, is symbolic of bankers' resolve to make Hong Kong markets work while they can.

Alexander Nicoll



In Hong Kong, banks remain by far the largest holders of local capital market instruments.

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Merrill Lynch

The Regulatory Background

Authorities' early fears are overcome

IT WAS only after a considerable amount of besitation and soul-searcbing that the UK Government finally gave the go-ahead to the launcb of the UK commercial paper market in April. But now that it has got under way, many of the concerns felt by the Treasury and the Bank of England seem rather outdated.

Some of the problems were only practical ones: the 1979 Banking Act was framed in sucb a way as to make it illegal for companies to raise money through frequeot issues of sbort-term paper, because that amounted to deposit-taking without a licence. Bnt that obstacle could be removed simply by issuing a new regulation exempting commercial paper from that definition, whicb is what happened: all commercial paper now carries some fine print about its regulatory status.

The more snbstantial problems bad to do witb the administration of UK monetary policy and the soundness of the credit system—and these bad to be halanced in the policymakers' minds against the obvious desire and need in the business community for new ways to raise short-term funds in the markets. The obvious success of the US and London-based Eurodollar CP market was another factor, along with the growing trend towards securitisation of company finance.

The knottiest problem was the potential clasb between the commercial paper market and the loog-established market for acceptances, the traditional way of raising sbort-term money to finance trade. Owing to the Government's policy of "over-funding"—borrowing more than it bad to to cover the hudget deficit in order to control monetary growth—the Bank of England had been forced to put some liquidity back into the market by huying large amounts of acceptance bills.

This producad tbe infamous "hill monntain" whicb amounted at its peak to over £15hn, and made hills an artificially cheap source of funds—with competitive implications for commercial paper.

Mr Nigel Lawson the Cbancellor of the Excbequer, announced an end to the poltcy of over-fundiog in October 1985. Bnt, though this news implied that the mountain would cease to grow and that bills would lose their artificat advantage and thus pave the way for commercial paper, it still left open the question of bow tbe mountain would be wound down. This was a considerahie worry in potential commercial paper dealers' minds because this large overhang could disrupt tbe relativa cost of hills as compared to paper.

Although the Bank of England declined, for obvious reasons, to say precisely how it intended to operate in the bill market in future, officials tried to reassure the City that thare would be no dramatic changes in its operations, and that the mountain would be wound down wlth minimum disruption. Tbat, essentially, bas happened. Last month, the bill mountain stood at £9.5bn.

Another regulatory concern had to do witb the soundness of the CP market itself. Experience in the US had shown that the collapse of a large CP borrower could have an extremely damaging effect on tha financial system. Yet the success of tbe CP market depended on its heing as lightly regulated as possible so that issues could be put together at extremely short notice: no registration requirements for issues, for example.

In the UK, it was decided that CP issuers would not have to pnblish a prospectus. But in order to ensure a high quality market, the Bank of England decided to limit access to borrowers with net assets of at least £50m and a listing on the Loadon Stock Exchange—thus ensuring that they would be substantial, well known and closely analysed by the investment community.

In lina with US practice, the Bank also said that issuers could have the repayment of their CP guaranteed by banks, though they would still have to comply with tha standards set for borrowers. Although this adds a degree of soundness to the market, it is also a concession to banks because it allows them to generate additional fees from tbe CP activities to compensate for the possible loss of loan business.

Success of the market depended on its being as lightly regulated as possible so that issues could be put together at short notice

However, the question wbether such bank guarantees sbould count as contingent liabilities for the hanks that give them has yet to be addressed. This is a crucial question because the cost of guarantees would be affected if hanks were required to hack them with capital, like ordinary loans.

The Bank ensured a further dagree of oversight of the market by saying that dealers must be recognised banks or other institutions of which it approves. The aim in baving an official list of CP dealers was to pnt all of them, hanks and otherwise, on to the same regulatory footing. By this month, the Bank bad approved several non-banks, most of them the large US and Japanese securities houses. The Bank, for some reason, declines to publish a list of recognised dealers, and will only say that they number about 20.

But these arrangements are temporary. Once the Financial Services Act is fully operative next year, more permanent arrangements for recognising dealers will be pnt in place.

Another consideration was tax. For the CP market to succeed, the interest payments would have to be paid without deduction of tax to the investor, and would have to count as a husiness expense deductible from profits. These points were agreed by the Inland Revenne. Altogether, the aim of the regnlators is to ensure that commercial paper remains "an axperts' market", where sophisticated borrowers and investors are able to deal with the minimum of regulatory fuss. The fact that CP can only be issued in denominations of £500,000 or more is a disincentive to the small saver. As for the concerns about monetary policy, the volumes so far have been so small as to have no effect on the market. Issues wonld have to be running in the billions of pounds a year, dealers believe, before the market was of any significance.

David Lascelles

Netherlands

Blue chip names tap in

AMSTERDAM'S infant market in commercial paper has shown signs of robust growth in its first year and holds promise of maturing into a healthy adult, perhaps faster than many had expected.

In recent months the market has picked up considerably, fuelled by greater familiarity and settlement of an interbank squabble over a suitable clearing system. No one expects Amsterdam to reach the gigantic proportions of the US commercial paper market—$300bn—or even the Eurocommercial paper market—$16bn. But forecasts are that guilder paper will flourish as more market players recognise it as a flexible and efficient instrument in an attractive currency.

Mr Wilco G. Jiskoot, senior vice-president in Amsterdam-Rotterdam (Amro) Bank's capital markets group, recently said: "I see several billion guilders of commercial paper a year being placed. That would mean 15 or 20 big and leading companies would be active in the placement of commercial paper on the Dutch money market."

Commercial paper was first allowed on January 1 of this year, when the Dutch capital markets were liberalised in a sweeping deregulation move that permitted financial instruments of less than two years. The Netherlands already had one of the most liberal financial markets in Europe outside London, with virtually no capital controls, freedoms for foreign banks and access by foreign borrowers.

But the Dutch, with centuries of international finance behind them, feared being left behind in the maelstrom of financial liberalisation and globalisation. London, in particular, was viewed as a direct threat in its ability to siphon off business. So new measures were introduced to allow a host of innovative instruments, including much-needed shorter ones, as well as to expand freedoms for domestic and foreign financial institutions.

Since the beginning of the year, commercial paper programmes involving Fl 900m, spread among 10 facilities, have been launched. Blue-chip names inside and outside the Netherlands, such as Philips Pension Fund, Akzo and Electrolux, have tapped the market, while leading Dutch and foreign banks such as Amro, Algemene Bank Nederland (ABN), and Citibank have arranged deals.

The Dutch Central Bank declines to say how much of the authorised paper has actually been placed, but Mr Jiskoot estimates that between Fl 400m and Fl 500m has found a home. He also believes that placing capacity has improved; and if size is any indicator, he is right.

The biggest facility to date has been a Fl 200m five-year programme from General Electric Plastics, the petrochemical subsidiary of General Electric of the US, arranged by Amro in August. Maturities range from 14 days to two years, and interest rates have been between 15 and 20 basis points below the Amsterdam Interbank Offered Rate (Aibor), to yield around 5½ per cent.

Dutch bankers contend that guilder paper offers distinct advantages in cost, speed and flexibility. Borrowers can attract money more cheaply than through Euronote issuance facilities and receive the proceeds faster—the same or following day instead of two to seven days' later. A guilder programme can be arranged in one or two weeks instead of two months as is often the case with Euronotes and US commercial paper.

Maturities can be any length, whereas Euronotes generally are limited to monthly intervals and no credit rating is required as in US paper. The Dutch require no back-up bank lines as in US paper or as is often voluntarily done in Euronotes. Unlike US commercial paper, guilder paper enjoys a secondary market. Moreover, there is no stamp duty or withholding tax.

Some bankers expect the Amsterdam market to accelerate now that an initial squabble over a clearing system has been resolved.

Led by ABN, the largest Dutch bank, some financial institutions had refused to use Euroclear, the world's leading clearing house, because Amro is its common depositary in the Netherlands.

In order to guarantee complete neutrality and avoid a crippling snag in the market, the Nederlandsche Bank agreed to provide clearing for commercial paper in an apparently unique move by a central bank. No other central bank is known to act as a clearing bank for commercial instruments, although the Nederlandsche Bank insists that other clearing services won't be offered. Most banks, including Amro, are expected to use the Nederlandsche Bank.

The Dutch commercial paper market should also benefit from the steady flow of new financial institutions setting up shop in Amsterdam, already quite international and sophisticated for its size. Major institutions such as Credit Suisse-First Boston and Swiss Bank Corporation, have begun operations just in recent months, while others are believed to be considering a move into Amsterdam.

Their know-how and experience in merchant banking are seen as increasing the level of sophistication and competition, presumably providing benefits for borrowers and investors alike.

Both banks and borrowers are expected to show an increasing interest in commercial paper. For banks it fuels the fast growth in income from management fees and commissions, which is offsetting the slowdown in traditional borrowing and lending. For first-class corporations, it offers a cheaper alternative to bank credits.

Laura Raun

Commercial paper issues in Amsterdam since January 1, 1986 (Fl million)

	Borrower	Amount	Bank
1.	Delta Lloyd	100	Morgan Nederland
2.	Akzo	25	ABN
3.	Sandoz/Zaadunie	25	ABN
4.	Limburg Provincial Electric Utility	100	Mees & Hope
5.	Philips Pension Fund	50	Van Lanschot
6.	Electrolux	100	Amro
7.	General Electric Plastics	200	Amro
8.	Ijssel Electricity Utility	150	Mees & Hope
9.	Van Ommeren	100	Citibank, Rabobank
10.	Philips Pension Fund	50	Van Lanschot

Source: Dutch Central Bank

France

The right product for its time

FRANCE'S INFANT commercial paper market has been a little too successful. The growth of the market in its first year of existence has been so rapid that the authorities in the French finance ministry and the Banque de France have been watching developments with some anxiety.

From FFR 10bn at the end of January, the volume of outstanding commercial soared to FFr 20bn by the end of April, peaking at FFr 26.8bn in July. The rate of growth prompted the authorities to lean on major companies in a successful attempt to curb the rate of issue. Those with programmes of more than FFr 500m were called into the Banque de France for discussions.

After this official intervention, prices dropped immediately from ⅛ percentage point below Pibor (Paris Interbank Offered Rate) to ¼ point below. The volume of commercial paper in issue has since then settled just above FFr 25bn, with over 100 issuers maintaining a presence in the market.

Some of the market's success may be only temporary. In the programme of liberalisation of the French financial markets, begun by the socialist government and continued under Mr Edouard Balladur, Minister of Finance and the Economy in the right-wing government which came to power in March, commercial paper has benefited from being in the right place at the right time—offering French investors a product whose characteristics they could not match elsewhere.

Competition from certificates of deposit and from treasury bills is expected to grow, and could attract some investors away from the commercial paper market. At the same time, however, more demand is expected from institutional investors who are to be progressively excluded from the interbank money markets.

Commercial paper—*billets de tresorerie* is the preferred term, to avoid confusion with the trade bills already known in France as *papier commercial*—came to life on December 18 1985.

The paper has to be of a duration between 10 days and two years—initially the maximum duration was six months, but this was extended in May—and to be issued in quantities of at least FFr 5m.

In practice, paper has mostly been issued in the 20 to 40-day range, but even before the extension of the maximum duration several issuers had pushed out paper up to the six-month limit. An estimated 25 per cent of paper is now issued with a maturity of longer than 80 days.

Sommer-Allibert, the household fittings group, has issued paper of longer than a year, and from next year companies will be permitted to issue paper with up to seven years maturity—bringing the rules on commercial paper into line with those governing certificates of deposit issued by banks.

The bulk of the paper in issue at any one time is usually concentrated on a few issuers. At the end of October, 68 per cent of the total of FFr 25.1bn stemmed from 16 issuers with more than FFr 500m each. A further 27 per cent came from another 31 issuers each with between FFr 100m and FFr 499m in issue.

However, the market has not simply been limited to the major French companies who form its natural clientele. Other users include subsidiaries of overseas companies, agricultural co-operatives and small French regional companies.

Market concentration is also evident among the banks acting as intermediaries. The three main nationalised banks—Banque Nationale de Paris, Societe Generale and Credit Lyonnais—are estimated to account for nearly 70 per cent of the market.

Issuers have to secure a substitute line of credit equivalent to 95 per cent of their commercial paper in issue—one of the more controversial points of the regulations introduced for the new market by Mr Pierre Beregovoy, the finance minister at the time. While the back-up credit is merely for purposes of liquidity—not for guarantee, as all participants are at pains to make clear—many observers regarded the figure of 95 per cent as excessive.

The further protection for investors provided by a rating system is not yet in place, but a rating agency has been set up on the initiative of the Credit National, the state owned financing institution which specialises in long term company loans.

Agence d'Evaluation Financiere (ADEF) is expected to publish its first batch of ratings early in the new year. The cost is expected to be FFr 100,000 plus 0.3 per cent of the value of the commercial paper programme for the first rating, with a maximum of FFr 300,000; and for annual renewals FFr 50,000 plus 0.2 per cent of the programme, with a maximum of FFr 200,000.

"The largest issuers are looking forward to the ratings, but the cost will probably frighten off some of the smaller issuers," commented Mr Patrick des Courtils, of Banque Indosuez. "There are certainly some institutional investors who will not take commercial paper until it has a rating system."

In the early days of the French commercial paper market, most of the investors were other companies. These remain an important factor—the proportions vary according to the intermediary bank, but companies take up an average of around 40 per cent of the total. Mutual funds and other institutional investors, however, take up an increasingly large part.

The *sicavs*, or mutual funds, have already been excluded from the interbank monetary market and have turned to commercial paper as a substitute. Insurance companies will also be shut out of the money market from the start of next year, and have similarly begun to move into commercial paper, while pension funds will follow thereafter.

George Graham

West Germany

A choice not yet available

COMMERCIAL PAPER does not exist in West Germany, though big corporations do tap the Eurocommercial paper market from time to time. With the Frankfurt capital market still in a fairly adolescent stage compared with, say, London or New York, it is maybe not surprising that such an investment instrument has not developed in Germany.

But apart from unfamiliarity, there are clear tax and administrative reasons that have hindered the appearance of commercial paper. The Bundesbank says it has no objections, however, and is not worried about possible subversion of its money supply aims, though some commercial banks are not so sure.

The bigger and financially more sophisticated German companies are no strangers to the wide range of international money-raising possibilities, and can also call on a variety of credit lines from their own banks. The German universal banking system, in which one institution combines a whole host of lending, investment, and financing activities, is sometimes cited as a reason that commercial paper has not yet sprung to life.

Will it one day? Several bankers see no reason why not, but are unable to say just when. If companies like Siemens, BASF, Mannesmann, Metallgesellschaft and others have made use of the Eurocommercial paper market, the domestic equivalent could well eventually follow, they argue.

One real obstacle is the continued existence in Germany of the *Boersenumsatzsteuer*, or stock exchange turnover tax, which is levied on transactions with investors, and thus means that secondary trading in securities has shifted to London.

Next year, the tax is expected to be lifted, though this is not a cast-iron certainty. Mr Gerhard Stoltenberg, the Finance Minister, has indicated it will be dropped after the January, 1987, general election which the ruling conservative coalition is not seen likely to lose.

But the surge of securities trading in Germany in the past few years means that this tax—levied at a rate of 0.25 per cent on dealings in domestic shares and foreign D-mark bonds and at 0.1 per cent on all other non-government instruments—has become a high, though hardly vital, source of tax revenue. It is expected to yield more than DM 750m this year.

The Bundesbank, which has given the Frankfurt capital market a shot in the arm by sweeping away a number of restrictions, is certainly keen to see the turnover tax removed. "Speed is called for," said Mr Karl Otto Poehl, president of the Bundesbank, recently.

Even without the tax, though, commercial paper would be subject to other blockages. Under German law, new quoted investments have to go through a process of official government approval, which can take several weeks or even months. The legal position of commercial paper, if it existed in Germany, is not clear, however.

Some legal opinion holds that such short-term paper would be akin to promissory notes and be liable for the stamp duty levied on bills of trade. Other lawyers say it would be termed a security and thus come under the legal need for finance ministry approval. Either way, the issue of commercial paper would be disadvantaged.

Another problem is the lack of a proper independent rating system for investments in Germany. In other markets, this is mostly in place, but it is an unfamiliar concept in Germany. Without such a system, however, no real market in commercial paper could develop.

Certainly, German companies are in no dire need of new ways to raise money. But commercial paper has taken hold in other European markets, and its introduction in Frankfurt would add to the still limited choice of instruments for investors.

"I think it will come, but slowly," said one banker. "It's more or less inevitable, so the market might as well get on with it." The speaker was an official at a US bank active in Germany.

It may, however, be a long wait. Certificates of deposit, after all, are also stuck in the infant stage in Frankfurt, though Morgan Guaranty has had a stab at marketing them in modest amounts. Again, it is the lingering presence of the turnover tax that is the bugbear.

Andrew Fisher

Amersham
Amersham International plc has appointed Lloyds Merchant Bank Limited as sole dealer for its Paper.

BANCO DI NAPOLI
Banco di Napoli has appointed Lloyds Merchant Bank Limited as a dealer for its Paper.

GRAND METROPOLITAN
Grand Metropolitan PLC has appointed Lloyds Merchant Bank Limited as a dealer for its Paper.

IRELAND
Ireland has appointed Lloyds Merchant Bank Limited as a specialised dealer for its Paper.

JAGUAR
Jaguar Plc has appointed Lloyds Merchant Bank Limited as a dealer for its Paper.

KB Kredietbank N.V.
Kredietbank N.V. has appointed Lloyds Merchant Bank Limited as sole dealer for its Paper.

Ladbroke Group PLC
Ladbroke Group PLC has appointed Lloyds Merchant Bank Limited as a dealer for its Paper.

Lloyds Bank NZA Limited
Lloyds Bank NZA Limited has appointed Lloyds Merchant Bank Limited as a specialised dealer for its Paper.

The Mitsubishi Trust and Banking Corporation
The Mitsubishi Trust and Banking Corporation has appointed Lloyds Merchant Bank Limited as a dealer for its Paper.

THE SAITAMA BANK, LTD.
The Saitama Bank, Ltd. has appointed Lloyds Merchant Bank Limited as a dealer for its Paper.

Sears plc
Sears plc has appointed Lloyds Merchant Bank Limited as a dealer for its Paper.

Kingdom of Spain
The Kingdom of Spain has appointed Lloyds Merchant Bank Limited as a specialised dealer for its Paper.

The Tokai Bank, Limited
The Tokai Bank, Limited has appointed Lloyds Merchant Bank Limited as a dealer for its Paper.

Unigate
Unigate PLC has appointed Lloyds Merchant Bank Limited as a dealer for its Paper.

Paper work, paper work...

Lloyds Merchant Bank

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Canada

Small firms' challenge

THE COMMERCIAL paper market is no exception to the increasingly stiff competition being felt in most sectors of Canada's financial services industry.

Dominion Securities (DS) and Wood Gundy, the two securities dealers which distribute about half of all short-term paper issued by Canadian companies, are having to face up to half a dozen or so smaller firms which are aggressively trying to chip away at their market dominance.

To the chagrin of all the dealers, a long tradition of fixing agency commissions at one-eighth of 1 per cent is gradually giving way to a system of all-in rates negotiated separately for each issue.

DS and Wood Gundy continue to dominate the market. Wood Gundy, for example, is part of the distribution group for 18 of the 24 companies which have begun commercial paper programmes in the past four years. DS has exclusive mandates from two of the five companies it helped bring to the market last year.

But with exclusive arrangements (involving just one agent) slowly going out of fashion, some issuers are plumping for the biggest possible number of securities dealers to handle their paper.

The concerns nipping at the heels of both DS and Wood Gundy include Burns Fry, Richardson Greenshields, Nesbitt Thomson and McLeod Young Weir. Merrill Lynch Canada has an exclusive deal with Honda's Canadian subsidiary with a mandate to raise up to C$100m at any one time.

While past practice has been to appoint a group of no more than three or four agents, the Toronto-based insurance holding company Lonvest broke new ground earlier this year by indicating that it will do business with no fewer than eight dealers.

According to Mr Frank Lochan, Lonvest's chief financial officer, "There was a lot of competition for the business. Everyone wanted to come in on an exclusive basis."

The good news for dealers is that the Canadian market, which began more than 30 years ago, is flourishing. The value of commercial paper outstanding at the end of last August (including sales finance and consumer loan company issues) totalled C$15.2bn, the level around which it has been fluctuating for the past year or two after a sharp jump—and then a fall—in the early 1980s.

About 15 per cent of non-finance commercial paper issued in Canada is denominated in US dollars.

The market has evolved with barely a sneeze since the failure of a finance company, Atlantic Acceptances, dented investors' confidence for a time in the mid-1960s.

Although the market is normally confined to paper with a maturity of 12 months or less, issues of between one and five years can be placed privately. The medium-term market has grown over the past year or two, mainly to facilitate the funding of mortgages by banks and trust companies. Royal Bank of Canada raised over C$500m in this way during October.

The 24 new issuers which have appeared in the past four years include such well-known Canadian companies as Canadian Pacific, Bell Canada Enterprises and the state-owned energy group Petro-Canada. About 45 of Canada's 50 largest companies have raised funds through short-term paper programmes.

"It's a very easy market to enter," says Mr Andrew Scace, vice-president for money markets at Dominion Securities. No filings with regulatory bodies are required and there are no restrictions on the use of funds raised in the commercial paper market.

Mr Scace estimates that a company can begin selling paper within six to eight weeks of initial discussions with an agent. New issuers have raised up to C$100m in their first week in the market.

But Mr Peter Marchant, a vice-president in Wood Gundy's corporate finance department, says that "an ongoing problem is finding quality issuers." Low commodity prices have forced many Canadian energy and mining companies to rely on bank credit while investors demand a good track record.

The market is thus largely confined to companies with an R1 or R2 high rating from Dominion Bond Rating Service of Toronto.

The R2 risks pay 10-20 points more than R1 companies, which can usually obtain funds at or slightly below the rate on bankers' acceptances. The 60-day BA rate stood at 8.4 per cent at the beginning of November. Domestic borrowing costs are usually lower than the Euro-commercial paper market when hedging costs in the latter are taken into account.

Although there is some interest among foreign investors in the Canadian commercial paper market, a 15 per cent withholding tax discourages more active involvement. Buyers are thus mainly Canadian institutions, including pension funds, trust companies, insurers, provincial governments and the big power utilities like Ontario Hydro and Hydro-Quebec.

Competitive borrowing costs are not the only reason why companies start a commercial paper programme. Both issuers and securities dealers agree that a presence in the short-term market can be a valuable image-booster for later equity and long-term debt issues. "It's a means of keeping our company's name in the market place," says Mr Lochan of Lonvest, which has so far raised C$40m in short-term funds.

Bernard Simon

Japan

Obstacles yet to be surmounted

TWO YEARS is the consensus view of the time that will pass before a commercial paper market becomes established in Japan.

The creation of a CP market has long been discussed, and is definitely on the agenda as part of the liberalisation of Japan's financial industry. But most analysts feel that it is still far from the top of that agenda. Other issues, such as the freeing of short-term interest rates and the removal of other obstacles to lively short-term money markets, must be dealt with before a CP market is set up, they say.

For example, the treasury bill market has not developed, because of the awkward way in which foreigners have to handle withholding tax; and the bankers' acceptances market launched last year, has fallen far short of expectations.

Also, the government's restrictions on the corporate bond market will be eased before a CP market will become possible. For example, the Ministry of Finance still only permits a very small number of Japanese companies to issue unsecured bonds in the domestic market. And companies have to decide whether they want to make public issues or private placements: they cannot make both.

There are also strong vested interests involved. The commercial banks are in no hurry to see a CP market established, because they know it will drive their industrial customers farther away from bank lending to securities. There is also some question as to whether or not banks would be allowed to deal in the CP market once it was established. Japan, like the US, has a law preventing companies from being in both the banking and securities businesses; and dealing in CP is almost certainly going to be considered by the authorities to be a securities operation.

There have been indications that the government intends to allow the banks to participate fully in the CP markets, but that is also an indication that implementation will be delayed for some time. If they are to participate, then the legal barriers preventing banks from entering the securities business will have to be removed first, and that is a very sensitive issue.

Meanwhile, the securities dealers, backed by associations representing major Japanese corporations, have been lobbying hard for the early development of a CP market, and the securities houses have made clear that they do not want the banks to be part of it.

Last May, the big four securities houses—Nomura, Nikko, Daiwa and Yamaichi—drew up draft rules for CP issues. They proposed that dealing be restricted to securities houses. If banks were allowed to deal, they said, they would gain complete control over Japan's short-term money markets. In July, the Commercial Banks Association, representing 12 leading banks, responded by saying that it was too early to introduce a CP market, because it would "upset Japan's financial order". That was an apparent reference to the traditional reliance on collateral in corporate lending in Japan. This would be weakened if a CP market was established.

There is an unofficial agenda for the continuing liberalisation of the financial industry. It suggests that the first order of business is to create a strong corporate bond market, as part of an attempt to repatriate a considerable amount of corporate funding from the Euromarkets. Some of the obstacles to a strong bond market, such as the MoF's regulation of the flow of new issues, have already been removed; and others, such as the restriction on the number of eligible issuers, are likely to be lifted next year.

Then the next round of liberalisation, in mid-1988, would be likely to include moves to create a CP market. The key one would be a method of getting around the law that restricts banks' participation in the securities business.

In the meantime, preparations are already well under way. Two years ago, the MoF allowed Japanese banks and brokers to deal in foreign commercial paper. Also, a few large Japanese companies have become issuers of CP, both in the US and in Euro CP markets. Early this month, the MoF authorised the banks to underwrite and make markets in CP in the Euro CP markets. Analysts say that was a sign that banks will ultimately be allowed to do those things in Japan as well.

Three credit-rating agencies have been established — Japan Bond Research Institute, Nippon Investors Service and Japan Credit Rating Agency — and all are eager for the bond and CP markets to be established.

It is still too early to know in detail how the CP market will operate, but some clues can be drawn from the draft rules drawn up by the securities houses last spring. They suggested that commercial paper should be considered as negotiable securities under the Securities and Exchange Law, that the paper be issued in denominations of Y10m, and that pricing be on a discount basis so as to avoid withholding tax.

Australia

Promissories noted

ASK ALMOST anyone in the Australian financial community about the local commercial paper market and you are likely to receive a polite correction. Most often it is in the form of a question: "You mean the promissory note market, don't you?"

The promissory note market, in fact, is but one element of a much larger market for short dated securities within Australia. Whereas promissory note facilities currently in place are now estimated at around A$12bn, bills of exchange accepted or endorsed by a bank now reach around A$40bn.

On top of this there are bills of exchange accepted or endorsed by merchant banks, certificates of deposit issued by banks and other financial institutions, and the A$9bn-worth of treasury bills issued by the Federal Government.

All this ought in turn to be distinguished from commercial paper issues by Australian borrowers abroad, denominated in Australian dollars or other currencies, and from issues by foreign companies in Australian dollars, often simply in order that a swap might be made with an Australian borrower.

In Australia, there is no doubt that over recent years it is the promissory note market which has caught increasing attention. Not only has it been a source of funds for borrowers and an investment home for institutions. It has also been a fee-earning business for merchant banks.

Anecdotal and documentary evidence on the origins, growth size and composition of the promissory note market tends to be contradictory, but there is no doubt that it has become important and sophisticated, and a notable feature of the recent rapid evolution of Australia's financial markets.

As late at 1979, total promissory note facilities in place amounted to only A$120m. One year later, when the figure had jumped to around A$770m, little more than a quarter was in the name of corporate borrowers, and the bulk was to government or semi-government entities.

Setting the pace at that point was the Australian Wheat Board, which in 1979 was told by the federal government to finance its crop on a commercial basis, either domestically or internationally. Close to 90 per cent of the board's domestic requirements is now said to be met through promissory note issues.

Apart from this trend-setting initiative, other developments have also helped boost the market. One was the abolition of stamp duty on negotiable money market instruments in 1983. Another was the effort by dealers to develop a secondary market.

The net effect has been to make tapping the market more attractive for borrowers because of the relative cheapness of funds, and investing in it less worrisome for investors because the paper is more liquid.

For the most part, however, the promissory note market is a source of finance which remains available only to prime borrowers. Apart from the wheat board, users include companies like Australian Airlines, BHP, CSR, James Hardie and Pioneer Concrete. One merchant banker says second-line credits can only get their paper away if it is under a letter of credit from a bank.

According to Investment and Econometrics Research, a private sector organisation which conducts regular quarterly surveys of the promissory note market, there are currently 135 issuers of promissory notes—75 industrial and mining companies, 32 financial institutions and 28 public sector bodies.

The way the market works is extremely simple, not least because the promissory note itself is a single piece of paper on which the issuer promises to pay a fixed sum on a fixed date. There are no other names on the note, which is likely to have a maturity of anything between one and six months.

Typically, an issue is made through a tender panel, and according to Investment and Econometrics Research a total of 86 financial intermediaries now participates in the new issue market. Fifty of these act as underwriters, joint underwriters, managers or advisers on issues. On average major dealers are represented on some 17 tender panels.

Lloyds Bank NZA, a major participant in the market, says facilities are becoming increasingly tailored to the specific needs of borrowers, allowing them to issue notes offshore as well as at home, and to receive US dollars and other currencies as well as Australian dollars.

Lloyds Bank NZA further points out that paper is also being privately placed with institutions and end investors. As this is often done without the use of an established facility and restrictions often exist on trading the notes, the magnitude of this sector of the market is said to be difficult to gauge. On one estimate, less than one-fifth of issuers place their securities directly into the market.

How advantageous it can be for a borrower to raise funds through the promissory note market depends on the rates prevailing at the time and the quality of the borrower. According to one company which is a regular issuer, the saving each time is 45 to 50 basis points compared to the cost of bank bill acceptance lines.

Last September's survey by Investment and Econometrics Research suggested that promissory note lines have a 0.36 per cent per annum advantage over bank bill lines and no less than 2.27 per cent per anum over regular bank facilities.

For a fully drawn A$25m facility, a typical size, this represents a saving of A$90,000 through the use of promissory notes instead of bank bill facilities. As for issue expenses, these are put at less than 0.20 per cent per annum for 90 per cent of users.

With so little available in the way of reliable statistics, it is difficult to judge exactly where the paper is held. Of the A$11-12bn-worth of facilities now in place, half or a little less is estimated actually to be drawn. Of this, more than one-third but less than a half is reckoned to be in the hands of non-bank financial intermediaries.

The major dealers on the Australian market include Chase-AMP, Citicorp Capital Markets, BT Australia, National Australia Bank, ANZ Bank Group, Westpac Bank Group and Lloyds Bank NZA.

It is their work, along with that of enterprising corporate treasurers and hard-pressed institutional fund managers which has provided the much-needed fertile ground for Australia's promissory note market to sprout and flourish. How this borrowing and lending tool now evolves will be important for the country's developing financial centres.

Chris Sherwell

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